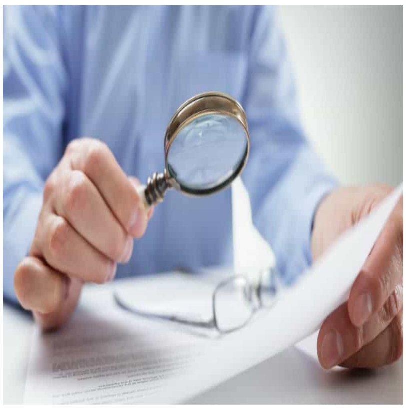

What Air Canada’s Cargo-Only Flights Mean for Investors

Description

From grounded fleets to reduced capacity, airlines are facing a tough second half of the year. The push for relaxed pandemic measures regarding flights could see some improvement in this space. Then again, a reopening could bring a fresh wave of infections, setting North American economies back even further. However, things could be about to change for a key player in the commercial flights space — and it has nothing to do with passengers.

The news came out last week that **Air Canada** (TSX:AC) is getting in on the cargo-only flights business. It’s a model strikingly similar to that of a high-growth name that hit new heights last week. Indeed, **Cargojet’s** (TSX:CJT) model has proved extremely popular with investors seeking strong names in the logistics sector. To give some idea of scale, Cargojet stock is up 81% in the last three months.

A case of reflected glory?

So, can Air Canada hitch a ride on Cargojet’s upside? There is market share to be captured, and Air Canada, with its grounded planes, is perfectly positioned to capitalize. Residential orders are rising, causing turbulence in the shipping space. Further disruption is coming from competing airlines. The entire flight industry has become a dangerously competitive, with revenues slashed by the pandemic.

Importantly, consumer demand is also rising, with online retail fueling household orders. From hoarding to home renovation, the pandemic has seen consumer behaviour evolve in fast-moving ways. The health crisis is also fueling hospital orders, with shipments of medical materials and equipment soaring. The sales boom is putting planes in the air and adding jobs to the market.

Indeed, part of the new model centres on medical supply shipments. This may help to reposition Air Canada as a defensive play. All told, Air Canada’s new direction could deliver a much-needed boost to its finances.

A stock full of upside potential

Freight and package delivery have emerged as fairly pandemic-proof businesses. Of interest to both value and growth investors, though, is just how much upside there could be in this space. Air Canada's share price has been extremely volatile in the past year. The last three months have seen the flag-carrying airline shoot up an incredible 47%. But it's down 52% for the year. Talk about turbulence.

Retooling for emergencies is part of the long and storied history of air travel. So, it shouldn't be too surprising that Air Canada is reorienting itself for air freight during the pandemic. That said, though, it seems almost revolutionary to see Air Canada tapping opportunities in the courier shipment space. And more surprises are on the way, with fall shaping up to be a big test of public demand for air travel.

Trusting the current trends means accepting that the ongoing social-distancing situation is a long-term economic factor. Doing so effectively means betting on the sustainability of upside in affected sectors. A range of business models have proven suddenly indispensable during the public health crisis. However, the market crash has also created potential unloved growth opportunities for long-term investors.

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