Is Air Canada (TSX:AC) or ONEX (TSX:ONEX) a Better Airline Bet Today?

Description

Investors interested in betting on a rebound in air travel have different contrarian stock choices to play the recovery.

Air Canada

Air Canada (TSX:AC) is a direct bet on a rebound in domestic and global travel. The stock traded above $50 per share before the pandemic crash and now sits near $17. Upside potential is significant if the industry eventually returns to its 2019 levels.

At today's price, the company has a market capitalization of roughly $4.5 billion.

Air Canada cut about 20,000 jobs last month in an effort to reduce expenses, as it shrinks its route network and takes planes out of service. The company reported a $1 billion loss in Q1 2020.

The Q2 results will be worse. Travel bans and lockdowns forced the company to cut capacity by more than 90%. Fortunately, Air Canada managed to raise significant capital in recent months, giving it close to $10 billion in liquidity to ride out the downturn.

That sounds like a lot, and Air Canada is definitely in a strong position relative to many of its global peers. However, Air Canada is burning through $20 million per day, or $600 million per month, so it isn't out of the woods.

The reopening of air travel remains uncertain amid fears of a second wave of the coronavirus. The European Union just reopened travel for 14 countries, including Canada. The U.S., however, is not on the list.

Canadians can also fly to the United States, but non-essential travel by Americans to Canada is not permitted. All other foreign visitors remain prohibited from entering Canada.

The U.S.-Canada border closure now runs to the end of July. Some pundits speculate it could remain closed until 2021, as many U.S. states continue to see record jumps in daily virus cases.

Onex

Onex (TSX:ONEX) announced its plan to buy WestJet in May 2019. The company closed the deal in early December last year. At $31 per share, the purchase valued WestJet at $5 billion, including assumed debt.

Founded in 1984, Onex is an asset management company that invests and manages capital on behalf of its shareholders, institutional investors, and high net worth clients. Assets under management currently total $33 billion.

Onex trades near $61 at the time of writing and has a market capitalization of $6 billion. The shares hit $89 in January, so the upside opportunity is decent on a market rebound.

Is one a better bet?

Air Canada is the way to go if you want a pure-play airline pick in the **TSX Index** and are of the opinion the airline industry is going to bounce back faster than the market currently anticipates.

Otherwise, ONEX is a great way to indirectly benefit from a rebound through the WestJet subsidiary. Onex provides exposure to the airline recovery, while offering a hedge in the event air travel takes much longer to recover.

Given the uncertainty in the global air sector in the coming 12 months, I would probably make Onex the first choice. The stock might not have the same upside potential as Air Canada on a surprise recovery in the air industry, but Onex should also have lower downside risk in the event things get a lot worse.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)
2. TSX:ONEX (Onex Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Investing

Date
2025/08/16
Date Created
2020/07/03
Author
aswalker