Planes, Trains, or Automobiles? Where to Park $1,000 in July

Description

The pandemic upended the travel plans of a significant portion of the global population. With life slowly returning to some semblance of normalcy, people are beginning to travel again. Which transportation sub-segment is best positioned to ride out the rest of 2020?

Planes

Air Canada (TSX:AC) has suffered during the pandemic. Business and leisure travel demand has cratered. Furthermore, Air Canada's most important market, outside of Canada, is the United States. With the U.S. border still closed to non-essential travel, this is significantly hurting Air Canada's demand during the crucial summer season.

Airlines are capital-intensive businesses. Airplanes, hangars, and fuel all cost money. Additionally, airlines have high fixed expenses. Air Canada still has to pay many of its bills, such as staff salaries, even if planes are not flying. Furthermore, there is nothing inherently high-moat about airline businesses.

The stock has been hit hard. It is certainly possible that Air Canada could double or triple in value from here if demand for air travel rockets back in the second half of 2020. In other words, Air Canada is a high-risk, high-reward play for those with a high risk tolerance over the short to medium term.

Trains

The Canadian freight train market is a duopoly. **Canadian National Railway** (TSX:CNR)(NYSE:CNI) is the larger of the two Canadian railway companies. Freight trains are an essential service. Goods have to move from coast to coast and across borders. Freight trains are the most economical way of moving high-volume, but low-value goods such as grain. Additionally, they can be used to move other higher-value goods where time is not critical. They are an essential part of the modern transportation infrastructure for commodities and consumer goods.

Railways are very high-moat businesses. The land that railways own cannot realistically or affordably be acquired anymore. Much of the land was given to them, or sold to them at below market prices by the governments of the 19th and 20th centuries.

These two factors mean that it is always a good time to own a railway, especially one as vast and crucial to a national economy as CN's network is. The stability and predictability of this business model makes trains, and specifically CN, my choice for parking $1,000 this month.

Automobiles

Magna International (TSX:MG)(NYSE:MGA) is a global automotive supplier. Magna has a large presence in the North American and European automotive supply markets. It also has a growing exposure to Asia. Magna is a very strong company in this space. It counts the largest automakers in the world as its clients.

Furthermore, the company has been able to grow its earnings and its dividend consistently over the past decade. Magna's share price has approximately quadrupled during that time. This corresponds with a booming economy and automotive market over the past decade.

However, the automotive industry as a whole faces a difficult 2020 and 2021. With incomes being significantly impacted by the pandemic, car purchases are likely one of the first major purchases to be deferred. This, combined with a potential flood of used rental vehicles hitting the market from bankrupt rental companies, has the potential to limit aggregate demand for new cars in 2020 and 2021. While Magna is a standout company within this sector, the demand for new cars in 2020 and 2021 is very unpredictable.

Takeaway

There is a great deal of uncertainty that lingers in the transportation space. However, railways have always been high-moat businesses that are crucial to the economies they serve. Combine this with the fact that it is nearly impossible to replicate this crucial infrastructure in today's day and age, and this makes CN a great place to park $1,000 in July.

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