Should You Invest in Air Canada Stock or WestJet?

Description

The pandemic has seen airlines getting their time in the spotlight — if not in the skies — as investors pick over their tickers in the hunt for momentum. **Air Canada** (TSX:AC) has been hogging the headlines in particular, generating reams of hot takes while its fleet remained largely grounded. But what of WestJet? Today, we will take a quick look at these two airlines and ascertain whether one of them is a better name to buy than the other.

A tale of two airlines

You can't buy WestJet stock anymore. However, what you can invest in is **Onex** (TSX:ONEX). But should you? The asset manager bought WestJet last year for a cool $3.5 billion. Talk about timing… But that acquisition could work out for airline investors who owned Onex and kept on holding. The stock has remained relatively unscathed in 2020, ditching 17% against Air Canada's loss of almost 60% year on year.

The signs are mounting that airlines are staging a comeback. While this is obviously fraught with risk (consider the potential for another way of coronavirus infections), an end to the pandemic is an inevitability. When it comes is less clear. But the good news is that investors should look forward to a period of post-pandemic growth. Leading the charge will be the sectors most affected and yet most capable of springing back.

Air Canada, for instance, will be carrying out a voluntary COVID-19 study of arriving international travelers. This will be in conjunction with McMaster HealthLabs and the Greater Toronto Airports Authority. Meanwhile, WestJet and Vancouver International Airport will be testing some departing passengers. According to WestJet CEO Ed Sims, the initiative will "marry our expertise in passenger movements to science."

For a major airline to be combining expertise with science halfway through a pandemic is no doubt a welcome initiative. But for investors, the real clincher will be whether these two airlines can get customers back in the air in appreciable numbers. There are still a lot of unknowns, after all. From the reliability of a vaccine to the efficacy of masks, the end of the pandemic is not yet in sight.

Look forward to growth in airline stocks

A recovery rally will happen eventually. Investors should therefore consider just how much upside they are willing to bet on and consider building positions on weakness. Air Canada has suffered the greatest losses on the TSX, making it the stronger play for recovery upside. Price targets for Air Canada range from $17 to $59. Currently selling at $18 a share, even a conservative estimate could see 60% upside in Air Canada.

On a side note, one encouraging factor that has emerged from the coronavirus pandemic is that the emergence of infectious diseases is no longer a black swan risk. Investors will now regard future pandemics as grey swans — significant evens that are perhaps unlikely but are entirely possible. This means (in theory, anyway) that a future pandemic of a comparable level of virality is likely to be as disruptive as this one has been so far.

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