Forget Air Canada (TSX:AC): WestJet's Parent Is a Better Play on a Post-Pandemic Recovery

Description

Air Canada (TSX:AC) is seen by many Canadians as the go-to way to play a recovery in Canadian air travel. Its top competitor, WestJet, is no longer a publicly traded entity after it was scooped up by **Onex** (TSX:ONEX) right before the industry got crushed by the coronavirus crisis. Although Onex isn't an airline pure play, I find it to have a far better value proposition relative to the likes of an Air Canada or any its peers south of the border.

Upside in the airlines? Fly clear of Air Canada if you have no desire to speculate

Onex's scoop-up of WestJet was very poorly timed. Still, you can't blame it, as the coronavirus blindsided many firms, causing some to skate offside, including the likes of the legendary **Berkshire Hathaway**. For Onex, it was just a case of being in the wrong place at the wrong time. The diversified asset manager has been punished, though, probably more than I think is justified, given the firm's stellar mix of cash flow-generative private equity assets.

Yes, WestJet is only a portion of Onex's business, but you're getting a heck of a lot more for your buck than the likes of an Air Canada. The company has a diversified portfolio of stakes in various private businesses in addition to non-investment grade debt. Both the equity and debt portfolios have been under pressure amid the crisis, but as we gradually move into a post-pandemic world, I think Onex, as a whole, could be a significant upside mover, as it escapes this crisis.

There's no question that there are a lot of moving parts in Onex. Not all of the equity or debt investments are worth owning. Many are, like WestJet, are at ground zero of this crisis. But as someone wise once said, any stock, even the ones facing seemingly insurmountable headwinds, can be a buy if the price is right.

Severely undervalued shares of Onex look like a far better bet

than Air Canada

With Onex stock trading at a huge discount to book value (0.73 P/B at the time of writing), I think Onex is a severely undervalued COVID-hit stock with immense upside over the next year and beyond. The company is also highly liquid and is in a spot to keep rolling with the punches as they come for the duration of this crisis, however long it may be.

Scotiabank analyst Phil Hardie recently slapped Onex with an “outperform” rating, noting that there’s value to be had in the name, especially for investors seeking a “recovery trade.” Hardie thinks that Onex stock is “too cheap to ignore,” and I find it hard to disagree with him with shares trading at a more than 25% discount to book value.

Air Canada, a pure play on the airlines, is far more expensive, despite the colossal magnitude of the stock’s decline amid the February-March sell-off. Shares got slashed in half nearly twice, yet shares still trade at a premium to book value, with a 2.7 P/B multiple at the time of writing.

Although Air Canada has been feeling the pressure, I certainly wouldn’t rule out a scenario where shares get further punished in a worsening of this crisis such that the stock trades at a discount to its book value. While Air Canada would have more upside in an elimination of COVID-19, I’d have to say that Onex is a better high-upside bet given its more promising fundamentals and severely depressed multiple.

Foolish takeaway on Onex and Air Canada

Both Air Canada and Onex are plays on a recovery from this pandemic, but the former, I believe, is a speculation. In contrast, the latter is more of a sound deep-value investment. For those seeking recovery upside, the answer is clear: Onex is a wiser bet with the superior risk/reward trade-off, and it’s not just WestJet that can propel the name higher.

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