Better Than Air Canada (TSX:AC): My Favourite Way to Play a 2021 Recovery

Description

Forget about **Air Canada** (TSX:AC) for a moment. The top Canadian airline has been doing everything in its power to improve its odds of surviving this crisis. And while the name could have a multitude of upside once this pandemic finally ends, one must not discount the potential downside risks associated with the all-or-nothing speculative bet.

Like it or not, Air Canada remains hard to value with little clarity on what will happen next with the insidious coronavirus. Many investors expect a 2021 recovery, and that's likely baked into share prices at current levels.

Various health experts believe that a safe and effective COVID-19 vaccine will be ready in 2021 (I think the consensus is that one will be widely available in Q3 2021). And if we can return to normalcy in late 2021, there's no doubt that COVID-hit names like Air Canada could prove to be severely undervalued here. If, however, we're actually further away from a vaccine, Air Canada's survival is no guarantee.

Air Canada is a risky bet that doesn't have the best margin of safety in the world

In the event of a bear-case scenario, Air Canada's cash bleed could send it to the brink, unless the government can bail it out. Given the tremendous financial distress facing the country, though, such a bailout is also no guarantee. As such, Air Canada remains a speculation, despite its compelling risk/reward trade-off considering a 2021 vaccine, and economic recovery seems to be the likeliest outcome at this juncture.

A risky high-upside bet like Air Canada isn't everybody's cup of tea, though. So, you shouldn't feel obliged to bet on a name that you can't value yourself. Warren Buffett bailed on the airline stocks at a loss, so you should feel no shame by taking a raincheck on shares of Air Canada amid this pandemic.

Forget Air Canada; bet on WestJet's parent

For deep-value investors who want a safer way to bet on the recovery of the economy and, in turn, the air travel industry, there are better options than Air Canada. One of my favourite economic recovery plays lies in the owner of WestJet airlines. Enter **Onex** (TSX:ONEX), a private investment manager caught offside as it scooped up WestJet the year before the COVID-19 pandemic decimated the airline industry.

The poorly timed WestJet deal was just a case of bad timing, and I think investors should forgive Onex, as there's no way it could have predicted the socio-economic disaster that was just around the corner. While Onex isn't an airline pure play, it is a name that's positioned to bounce once this pandemic ends. Shares of Onex trade at 0.7 times book value, which I find absurd given Onex's long-term track record of outperforming the **TSX Index** by a wide margin.

Foolish takeaway on WestJet's parent company

At $61 and change, Onex stock may be one of the biggest bargains amid the COVID-19 sell-off. The company has a sound liquidity position, yet shares trade as though the firm's financial flexibility is rigid amid this crisis.

As I wrote in a prior piece, Onex is a bad case of "being in the wrong place at the wrong time." The company is close to the cheapest it's been in recent memory and is a must-buy, regardless of what the timing or shape of the economic recovery from this crisis. Of course, a 2021 rebound would make Onex a timelier investment that could bring forth a 30% year-ahead return.

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