Airline Investors: Forget Air Canada (TSX:AC)

Description

Following a brief love story with the market, airlines have once again become the risky investments that prominent investors always knew they were. In short, the impact of the COVID-19 pandemic on the airline sector accelerated a slowdown that pundits were already forecasting. But are all airlines risky investments now?

A tale of two companies

When it comes to evaluating airline stocks, the first stop for many investors is **Air Canada** (TSX:AC). Prior to the COVID-19 pandemic, Air Canada was one of the best-performing stocks on the market. In the past five years, Air Canada saw its stock surge over 270%. The airline was posting record-breaking quarters, updating its fleet, and announcing new routes.

Even before the pandemic hit, the airline was hit hard with the 737-max grounding back in 2019. That may seem like a lifetime away from what the market has endured in 2020, but it's still a factor that needs to be evaluated.

That's not to say that Air Canada can't be a good investment again in the future. The company has superb management and has a solid balance sheet to weather this current storm better than many of its peers. It's just too risky an investment while the pandemic is still ongoing.

So, where should airline-seeking investors turn to?

Airline investors: Look here

Cargo-focused airlines haven't suffered in the same manner that passenger-focused airlines have. If anything, cargo airlines have seen a surge in business during 2020. That surge can be attributed to a variety of factors, such as the spillover demand for cargo from passenger airlines that still run on limited schedules. Another key factor is the surge in online orders during the pandemic, leading to an increase in cargo volumes. That other airline I teased is **Cargojet** (TSX:CJT), and here's why investors should take a serious look at the company.

For those that are unfamiliar with Cargojet, the company provides regular and expedited service across Canada and internationally. In terms of volume, the airline hauls over eight million pounds of cargo each week, representing over 90% of Canada’s air cargo.

Remember that spillover demand and surge in online orders I noted above? Cargojet is the net beneficiary of that shift, which is evident in the whopping 80% rise the stock has seen year to date. By way of comparison, over the same period, Air Canada has dropped over 65%.

In terms of results, in the second quarter, Cargojet saw revenues surge to $196.1 million. By way of comparison, in the same period last year, Cargojet reported $119.1 million in revenue. In addition to the surge in e-commerce orders. Cargojet is also benefiting from medical shipments and lower fuel costs. Collectively, those factors helped the company report an adjusted EBITDAR of $91.1 million in the quarter.

Worth noting is that the growth that Cargojet saw in the past year isn’t a one-time event. Many of the shifts introduced during the pandemic, such as working from home and an increase in e-commerce transactions were already occurring — the pandemic just accelerated that shift. If anything, as the economy reopens fully, Cargojet could see a surge in B2B volumes, which is the one segment that has dropped.

What should you do?

Airlines, particularly passenger airlines, are risky investments. They are expensive operations that require highly specialized and trained crews in both departure and arrival points. They are also operationally contingent on the entry and exit rules of each region it operates in. Most importantly, they require a steady stream of passengers needing to move from one destination to another.

Contrast this to Cargojet, which isn’t reliant on the movement of passengers, but rather the essential (and growing) demand for cargo. In my opinion, Cargojet remains an excellent long-term option for airline investors.

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