Airline Stocks: Not Out of the Woods Yet

Description

Economies are restarting, but it doesn't mean airline companies are out of the woods — not by a long shot. It's still turbulent times, especially with the second wave of COVID-19. Investors are taking a huge gamble betting on airline stocks when recovery is nowhere in sight.

Things are horrible for the industry as the pandemic continues to bleed airlines dry. In the **S&P/TSX Composite Index**, Canada's dominant carrier loses its lustre every time the government extends border closures and travel restrictions. If you're looking to invest in an airline company, it's better to pick one whose core business is cargo, not passengers.

Air Canada (TSX:AC) and **Cargojet** (TSX:CJT) have contrasting fortunes in 2020. The former is among the worst performers, while the latter is flying high with the best-performing stocks.

Missing in action

Air Canada's chief architect of its successful restructuring 16 years ago is stepping down. President and CEO Calin Rovinescu is retiring from his post in February 2021. Deputy CEO and CFO Michael Rousseau will be the company's top pilot. Peter Letko, a co-founder of Letko Brosseau, Air Canada's largest shareholder, expressed full confidence in Rousseau's leadership.

Rovinescu turned Air Canada into a winner, ending the recent decade as one of the top 10 **TSX** stocks. However, his astute executive skills were no match for COVID-19. Passenger aircraft are virtually empty when flying because travel demand is nearly zero. Rovinescu himself admits it will take three years before capacity and revenue return to pre-corona levels.

The International Air Transport Association (IATA) estimates the 2020 global airline industry revenue to decline by 55% to US$314 billion versus the 2019 revenue. Meanwhile, Air Canada shares are losing by 68% year to date.

Flying high

Cargojet is flying high in the pandemic with its 122.99% year-to-date gain. Had you invested $50,000 on December 31, 2019, your money would be worth $111,502.14 today. The stock is currently trading at $229.07 and paying a 0.41% dividend. Analysts forecast the price to climb by 35% to $310 in the next 12 months.

On September 15, 2020, the TMX Group released its 2020 TSX30 list that showcases the index's top 30 performing stocks that offers sustained excellence over the long term. The companies have at least recorded a +139% performance in the last three years. Cargojet ranks number 10 with +248%, while **Shopify** took the top spot (+1,043%).

You could say that Cargojet benefits from the pandemic. Besides ensuring no disruption in the supply chain, freight, online shopping, and shipping are increasing. Similarly, contracts with clients are long term, so business should be stable.

There's no doubt that air cargo will be a critical area of resiliency for airports and airlines soon. With Air Canada barely flying, opportunities abound for Cargojet. This early, analysts see this $3.57 billion company playing a critical role in delivering COVID-19 vaccines to other countries.

Strategic priority

The global airline industry's future is bleak as it's likely to shrink further in the long-term. Some passenger airlines might make cargo a strategic priority. If the companies can generate more cargo revenue, they could offer reasonable fares to travellers to bring back passenger traffic.

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2. TSX:CJT (Cargojet Inc.)

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