



Here's an Airline Play That's Safer Than Air Canada (TSX:AC)

Description

Air Canada (TSX:AC) has become quite a [popular](#) all-or-nothing bet among youngsters hungry for [gains](#). While the company has done a respectable job of battenning down the hatches amid this crisis, with capacity cuts, liquidity raises, and downtrending cash-burn rates, the firm is still eagerly awaiting a safe and effective vaccine.

Air Canada: A risky proposition, but one with massive upside

Until prospective passengers can feel safe retaking the skies, Air Canada's top line will remain under a profound amount of pressure, and its business will continue to look pretty uneconomical. While some view Air Canada and many of its air travel peers to the south as plays on the advent of a vaccine, I think overlooked positive developments, including the procurement of rapid COVID-19 test kits, could help buy the firm more time to wait for the insidious coronavirus to be conquered.

Even with amped-up testing procedures that could be in place early next year, there's always the chance that this pandemic could drag on for a lot longer than even the most pessimistic pundits expect. That's the nature of biology. With such uncertainties, it can be difficult to justify an investment in Air Canada, even though its liquidity position is miles above some of its peers.

Looking beyond Air Canada and the pure-play airline stocks

The airlines aren't Warren Buffett's cup of tea, because the pandemic uncertainties are just too great. Just how many years does a name like Air Canada have if we're due for another several years' worth of waves, intermittent lockdowns, and stringent travel restrictions?

That's the million-dollar question. Unfortunately, nobody knows how long this kind of pandemic-plagued "new normal" will last. And although further liquidity raises and the possibility of a strings-attached government bailout could avert Air Canada's demise in a worst-case scenario, Air Canada remains a calculated speculation at best and an all-or-nothing gamble at worst, as long as we're still in a pandemic.

The risks to be taken on by investors is ridiculously high, but so too are the potential rewards. For those looking for an even better risk/reward tradeoff, I'd like to direct your attention to Air Canada's peer WestJet Airlines and its undervalued parent company **ONEX** ([TSX:ONEX](#)).

ONEX: Extreme undervaluation

Like Air Canada, WestJet's business has been under an unfathomable amount of pressure amid the pandemic. ONEX's acquisition timing was brutal, but nobody, not even the greatest investors on the planet, could have known that a global pandemic would hit in the following year. That's the nature of black swan events.

Fortunately for ONEX, it's well equipped, with a rock-solid balance sheet to ride out the rough waters en route to a post-pandemic world. While ONEX may not have the same magnitude of upside as the likes of an air travel pure play like Air Canada, I still think the stock offers a heck of a lot of upside at a fraction of the risk, given the firm's greater financial flexibility. For the added diversification and better balance sheet, you'll also be paying a way lower price, as shares of ONEX currently trade at a 30% discount to book value. In contrast, Air Canada stock still trades at 2.3 times book value.

Foolish takeaway

ONEX is a great deep-value bargain that can help you get some airline exposure without having to risk your shirt. The lesser-known asset manager has a track record of crushing the TSX Index and is one of the most compelling options for Canadian investors seeking outsized post-COVID upside.

CATEGORY

1. Coronavirus
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. TSX:AC (Air Canada)
2. TSX:ONEX (Onex Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred

5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Stocks for Beginners

Date

2025/08/25

Date Created

2020/10/28

Author

joefrenette

default watermark

default watermark