



## Forget Air Canada: This Top Canadian Stock Is Severely Undervalued!

### Description

**Air Canada** ([TSX:AC](#)) is an [ultra-popular](#) stock these days, as Canadians set their sights on the great reopening and the post-pandemic world. While Air Canada stock may still have considerable upside potential in a bull-case scenario that sees herd immunity in late 2021 or early 2022, I still think that the name isn't without its fair share of [risks](#), especially after its latest rally. There are many risks, and I believe it's still far too early to conclude that the airline stocks are a sure thing ahead of an imminent post-COVID boom.

Not only do I think Air Canada's recovery trajectory will be modest, but I also see significant risks that may be discounted amid the latest increase in risk appetite.

Could Canadian investors be overlooking downside risks? Is it too soon to say that Warren Buffett made a mistake by ditching his U.S. airline stocks out of fear earlier last year? Are airline stocks going to be turbulent through 2021? Will they crash again because of the coronavirus? When should investors think about getting in?

These are the million-dollar questions on the minds of investors. Unfortunately, nobody, not even Warren Buffett, has the answers at this juncture. The coronavirus remains a threat, and only time will tell if the Oracle of Omaha was wrong to ditch airline stocks at a loss. Regardless, just because airlines like Air Canada are popular does not mean they're the best reopening plays out there.

I think there's deeper value to be had in one of Air Canada's long-time rivals: WestJet.

## Looking beyond Air Canada for severe undervaluation

WestJet got gobbled up by a lesser-known private equity firm named **ONEX** ([TSX:ONEX](#)) before the coronavirus pandemic struck. Like Air Canada, ONEX has felt immense pain but is in a spot to make up for lost time once we escape this socio-economic nightmare that is the COVID-19 pandemic.

In addition to WestJet, ONEX owns some wonderful businesses that have felt the impact of the coronavirus recession. I guess you could say that ONEX was in the wrong place at the wrong time.

Regardless, the stock has been punished, and many folks have likely discounted the firm's longer-term track record of outperforming the **TSX Index**.

ONEX's managers are worth a premium price tag. And there wasn't much they could do to avoid the impact of the COVID-19 crisis. Heck, not even Warren Buffett was able to steer clear of the immense pain that was to come from the pandemic. While I have no idea when the pandemic will end, I think deep-value investors have a lot to gain by giving ONEX's managers the benefit of the doubt, as they continue managing through this crisis.

## ONEX: The king of value?

The stock trades at 0.8 times book value and 7.3 times cash flow. The stock isn't the same steal it was when I recommended investors back up the truck last year. It's nearly doubled off its March bottom.

Still, I think ONEX stock is a reopening play with one of the largest margins of safety out there. And if you're at all concerned about the level of froth on the TSX Index, I think you have to insist on such a wide margin like the one provided by ONEX stock at these levels. I've been pounding the table on the dip, and I'm not about to curb my bullishness with the name anytime soon.

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2. TSX:ONEX (Onex Corporation)

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