



Forget Air Canada (TSX:AC): Here's a Cheaper Airline Play on the TSX

Description

Air Canada ([TSX:AC](#)) may be one of the most popular reopening plays on the **TSX Index**, but it's not the only one. And given the higher multiple and its unique slate of risks as an internationally focused airline, I'd argue it's not the best airline play either! Air Canada recently came under fire from the media for doling out \$10 million worth of COVID-19 bonuses to its top executives amid bailout negotiations.

Air Canada execs get a \$10 million payday

In numerous prior pieces, I've noted that Air Canada was too vital for the federal government to let fail and that Ottawa would always extend a hand to pick it up should it ever fall again. The company's balance sheet may not have been the best in the world, but having Ottawa standing in its corner, I thought, made it one of the better airline plays, even as COVID-19 worries heightened last year.

It's certainly not a good look for Air Canada right now.

The recent slew of headlines shaming management for its generous bonuses could hurt Air Canada's chances at receiving generous amounts of financial support moving forward.

Still, the federal government is unlikely to cut off any funding should Canadian airline's balance sheet run into trouble again amid its cash bleedout. That said, more strings to be attached come the next federal funding round. And I think that could mean dilution for Air Canada shareholders.

Risks ahead

At this juncture, I can't say I'm a huge fan of the risk/reward tradeoff to be had in Air Canada stock. In prior pieces, I'd highlighted that Air Canada was unlikely to recover to its pre-pandemic highs until the world (not just Canada) conquered COVID-19.

Although vaccination efforts in Canada have picked up, insidious variants of concern continue to pop up in specific localities. The latest variant discovered in Vietnam could bring forth widespread

international restrictions and dampen Air Canada's international travel sales, even after Canada winds down with its third wave.

While Air Canada will have some pressure relieved as domestic air travel recovers ahead of peak travel season, I still think there are better ways to play an air travel recovery, specifically with Air Canada's top peer in WestJet Airlines.

ONEX: A safer air travel recovery play than Air Canada

Investment management firm **ONEX** ([TSX:ONEX](#)) acquired WestJet nearly two years ago. As a more domestically focused airline, WestJet faces a smoother and potentially sharper recovery than Air Canada, as we inch closer to post-pandemic levels of normalcy. While WestJet may be better positioned to recover, the second-largest Canadian airline only comprises a modest slice of the overall ONEX pie.

While ONEX isn't an air travel pure play, I still find it to be one of the most undervalued economic reopening plays out there, with shares trading at just 0.86 times book value. I've been pounding the table on the asset manager ever since it fell off a cliff last March. Although ONEX stock has come a long way since then, I still find shares to be [undervalued](#), given the calibre of business you're getting.

ONEX's managers have a lengthy track record of [beating the market](#). With the acquisition of WestJet just a year before the COVID-19 crisis, the company may have skated offside. But such poor timing was just bad luck and not because of a lack of due diligence on management's part. At these depressed prices, I'd argue that ONEX is one of the cheapest baskets of wonderful businesses out there ahead of the great reopening and the Roaring '20s.

Stacked up against Air Canada, I think ONEX is a bargain with a greater margin of safety.

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Date

2025/07/28

Date Created

2021/06/02

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