Investing in Airlines: Top Canadian Airline Stocks of 2023

Description

Investing in airline stocks isn't for the faint-of-heart. When demand for travel goes down, airline stocks can suffer immense losses.

Not only that, but airline stocks are cyclical, meaning they move with economic ups and downs. The strongest airline companies may have enough cash reserves to weather market downturns, but many others don't.

If the COVID-19 pandemic showed us anything, it's this — airline companies are extremely resilient. If they can survive two years of restricted air travel, they can survive most anything.

And now that enforced lockdowns are finally lifted, airline companies could experience a much-needed resurgence. Investing in them could be a smart move.

What are airline stocks?

Airline stocks are companies that provide delivery, cargo, and transportation services to consumers and businesses.

When you think of airline stocks, you might think of air carriers, like **Air Canada** or **WestJet**. However, airlines encompass a much broader range of services, including delivering time-sensitive goods and consumer packages.

Top airline stocks in Canada

Canada has a number of great airline stocks trading on the Toronto Stock Exchange (TSX). As you're doing your research and looking for stocks to add to your portfolio, here are just three airline stocks you might want to consider.

Airline Stock	Description

Air Canada (TSX:AC)	Canada's largest airline, serving around 50 million passengers annually.
Onex (TSX:ONEX)	An asset management firm that owns Canada's second-largest airline carrier, West Jet.
Cargojet Inc. (TSX:CJT)	An air cargo company that provides services in North America and Europe.

1. Air Canada

Air Canada is a popular household name in Canada that — pre-pandemic — was one of the most successful airlines in the world.

In 2019, Air Canada reported $18 billion in revenue. This gave it so much positive cash flow, it led the airline industry in terms of return on equity (ROE) and return on assets (ROA). Investors who had invested in Air Canada from 2012 to 2019 would have enjoyed a 5,839% return, making it one of the best-performing TSX stocks.

The COVID-19 pandemic, however, devastated Canada's flag carrier. In 2020, Air Canada reduced its available seat miles (ASM) — a measure of how many seats an airline can sell on a given route — by 67%, which crushed its ability to generate revenue.

Compared to its $18 billion in 2019, Air Canada made only $5.3 billion in 2020, resulting in heavy debts and a government bailout. Along with profits, Air Canada stock suffered immensely.

That said, this popular Canadian airline could be on the upswing. Though its stock is still far below its pre-pandemic highs, Air Canada *is* an essential service to Canadians. With lockdowns ending and travellers dusting off their suitcases and backpacks, it's likely Air Canada could experience a positive uptick. Now might be a great time to buy, especially as the stock is still relatively low.

2. Onex

Onex isn't your average airline stock. It isn't an air carrier, nor does it specialize in airspace services. Rather, it's an asset management firm that pools investors' money together to reinvest in businesses it believes have growth potential.

Onex owns Canada's number two airline carrier, WestJet, and it recently purchased Sunwing Airlines and Sunwing Vacations, making it a strong competitor to Air Canada.

Because it isn't an airline company, Onex could present investors with less downside risk than other airline stocks, while also exposing them to the broader airline market.

3. Cargojet Inc.

Some airlines carry people to destinations. Others carry cargo. Still others carry *time-sensitive* cargo, like prescription drugs, perishables, and other goods with short shelf lives.

Canadian-based company Cargojet is firmly in the last category, carrying time-sensitive goods between points in North America and Europe. According to the company, it transports around 1.3 million pounds of cargo each business night, roughly the weight of 100 African bush elephants. It services around 90% of Canadian household's next-day deliveries.

As far its stock goes, Cargojet has done exceedingly well on the TSX. It was listed in 2021 as one of the TSX 30 best-performing stocks over the previous three years, during which time the stock more than doubled in value. Most of this growth came during the COVID-19 pandemic when pharmaceutical companies needed medical aid delivered in a timely manner.

Most importantly, Cargojet has low operating costs, a strong business model, and immense growth potential. For Canadians who don't want to invest in airlines directly, Cargojet could be a solid investment.

Are airline stocks a good investment?

Historically, airline stocks haven't been the most steady investment. Airlines are expensive to operate. And, because airplanes guzzle large quantities of jet fuel, airlines suffer when gas prices go up.

Likewise, airlines generate more revenue when consumers have more disposable income. During hard economic times, when consumers have less money to spend, airlines often make less money.

Finally, let's not forget that airlines were crushed by the COVID-19 pandemic, bringing many companies to the brink of bankruptcy. But it would be foolish to assume that all airline stocks are bad investments. Many are solid businesses that have outperformed the broader market.

Airline stocks have their risks, but they can have their rewards, too. Investors would be wise to consider both before either buying or dismissing them too quickly.

Should you invest in airline stocks?

The airline industry is highly cyclical, and its stocks can move up and down wildly. Historically, airline stocks have underperformed the overall market, and even when they've done exceptionally well, they rarely beat TSX favourites.

As long as you're aware of their risks, however, airline stocks could present a lucrative opportunity. That might be the case now, since many airline stocks are still trading at low prices due to the double-whammy of high fuel costs and the ongoing post-COVID-19 recovery.

If you're interested in airline stocks, be sure you start with a well-diversified portfolio. You might want to invest in some strong safe stocks first, like utility or energy companies, that could help anchor your portfolio should an economic downturn hurt the airline industry.

You could also diversify your airline holding. For instance, you could buy stock in a cargo company, like Cargojet, along with an air carrier, like Air Canada.

Finally, consider some airline stocks from the U.S., too, like **Delta Airlines** or **United Airlines**, as many international airline carriers have larger market caps than Canadian ones.

TICKERS GLOBAL

1. TSX:AC (Air Canada)
2. TSX:CJT (Cargojet Inc.)
3. TSX:ONEX (Onex Corporation)

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