Buying Airline Stocks Now Will Pay off for Canadians Long Term

Description

One sector is in more danger than perhaps any other at the moment: air travel. So should Canadian be buying airline stocks right now? Or are they a falling knife?

Investors seeking oversold quality have at least two ways to play the aerospace sector. Canadians can stack shares in commercial carriers, such as **Air Canada** (TSX:AC)(TSX:AC.B). Conversely, they can become stakeholders in parts and manufacturing names, such as **Héroux-Devtek** and **Bombardier**.

Is buying airline stocks too high-risk right now?

Both sides of the aviation sector stand to lose if the COVID-19 market crash continues for multiple quarters. However, the emphasis on commercial air carriers is perhaps strongest right now. These businesses are in the direct firing line as international air travel is halted.

The risks are certainly stacking up. **Boeing** halted trading Monday morning, startling investors. Buying and holding in this sector is going to be hard going, certainly. Canadians holding stocks for their passive income may want to be prepared for dividends to be cut or even suspended. However, some names are still worthy of a long position.

Investors should look at runways versus turbulence

Air Canada is a prime example of a quality airlines stock. Silent runways need to be balanced with cash runways right now, and Air Canada has a $7 billion runway that can get it through the next couple of quarters.

Beyond that, however, things may get rough, so investors need to be prepared to weather some turbulence. But as the largest airline in the country, it has the defensiveness of sheer size on its side.

A 36-month beta 0f 0.6 indicates a generally low volatility play, which makes Air Canada a long-term buy for post-virus normality. The stock had lost 30% in the last five days of trading heading into the week, which makes this a great time to get in at ground level. Any improvement in the COVID-19 situation will see airline stocks rally, making this a good time to start buying shares.

The situation is mitigated by a few factors, however, so investors should take heart. Consumer demand is going to be high once the threat of the novel coronavirus has diminished.

Air passengers will take to the skies like never before as soon as a vaccine for COVID-19 emerges. So there's a mid-term play here for sudden exponential growth.

Apart from a full throttle relief rally in 2020, lower oil could bring its own tailwinds to airline stocks. Cheaper fuel means lower overheads for airline companies, which means wider income margins, stronger long-term performance, and safer dividends.

Lower oil also puts more money in consumers' pockets, which means that passengers will be more likely to fly regularly. Cheaper oil also stimulates the economy generally.

The bottom line

A new month will bring new challenges for investors in airline stocks. It's likely that social distancing will still be a big part of our lives. Businesses will face increasing strain as demand remains low. Oil will continue its downward spiral, though safe-haven sectors will see positive action.

Would-be shareholders may want to start adding Air Canada in increments, buying on further weakness and holding through rallies.

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1. airline
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1. TSX:AC (Air Canada)

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