

Top 3 Airline Stocks Positioned for Potential Gains – Buy or Hold?

The airline market has emerged resilient over the years and is poised for significant growth owing to increasing air travel demand and the incorporation of new innovative ideas to bolster the market. Given this backdrop, let's assess the prospects of airline stocks Copa Holdings, S.A. (CPA), Corporación América Airports S.A. (CAAP), and Cathay Pacific Airways (CPCAY) to determine the best investment opportunity in this space for now. Read on....

With more people and cargo taking to the skies, coupled with technological advancements, the airline industry's prospects are promising. Given the industry tailwinds, investors could consider buying airline stocks Corporación América Airports S.A. (CAAP) and Cathay Pacific Airways Limited (CPCAY), positioned for potential gains, while it would be wise to watch Copa Holdings, S.A. (CPA) now.

According to the International Air Transport Association (IATA), global passenger demand for February 2024, calculated in revenue passenger kilometers (RPKs), grew by 21.5% year-over-year, while the total capacity measured in available seat kilometers (ASK) increased by 18.7% annually.

The air cargo total demand, measured in cargo tonne-kilometers (CTKs), increased by 11.9% compared to February 2023 levels, marking the third consecutive month of double-digit year-on-year demand growth.

The airline industry is expected to showcase extraordinary growth this year and expect further growth in 2025. The IATA forecasts total revenues to grow by 7.6% year over year to \$964 billion in 2024.

The industry is coming up with new innovative technologies, like the usage of global weather data, historical flight operations data, and more, with the help of artificial intelligence (AI) algorithms to avoid flight delays and cancellations, enhance customer experience, employee efficiency, and help in cutting costs.

The U.S. Aviation Market is estimated to grow at a CAGR of 4.5%, reaching \$105 billion by 2030.

In light of these encouraging trends, let's look at the fundamentals of the three Airlines stocks, starting with the weakest from the investment point of view.

Stock #3: Copa Holdings, S.A. (CPA)

Headquartered in Panama City, Panama, CPA provides airline passenger and cargo services. The Company operates through air transportation segment. It offers approximately 327 daily scheduled flights to 78 destinations in 32 countries in North, Central, and South America, as well as the Caribbean from its Panama City hub.

On April 11, CPA announced its March 2024 figures in which CPA's capacity (ASMs) increased by 12.3%, while system-wide passenger traffic (RPMs) also increased by 11.5% year-over-year.

On March 15, CPA paid its shareholders the first quarterly dividend of \$1.61 per share. Its annualized dividend rate of \$6.44 per share translates to a dividend yield of 6.69% on the current share price. Its four-year average yield is 1.32%. Over the past five years, CPA's dividend payments have grown at an 8.5% CAGR.

CPA's trailing-12-month EBITDA and levered FCF margins of 32.29% and 21.53% are 135.8% and 225.7% higher than the industry averages of 13.69% and 6.61%, respectively. However, the stock's asset turnover ratio of 0.70x is 11.4% lower than

the industry average of 0.79x.

Over the past three and five years, its revenue grew at CAGRs of 62.9% and 5.3%, respectively, while its total assets grew at 10.5% and 3.2% CAGRs over the same periods.

During the fiscal fourth quarter that ended December 31, 2023, CPA's total operating revenue and total operating expense increased 3% and 4% year-over-year to \$916.93 million and \$698.06 million, respectively.

For the same quarter, the company's adjusted net profit increased 6% from the year-ago quarter, while adjusted basic earnings per share declined marginally from the prior-year quarter to \$4.47.

Street expects CPA's revenue for the fiscal year ending December 2024 to increase 7.6% year-over-year to \$3.72 billion. The company's EPS is expected to decline 1.6% year-over-year to \$16.52 for the same period. The company surpassed consensus EPS estimates in each of the trailing four quarters, which is impressive.

The stock has declined 14.8% over the past nine months but gained 14.2% over the past six months to close the last trading session at \$96.25.

CPA's mixed fundamentals are reflected in its POWR Ratings. The stock has an overall C rating, equating to Neutral in our proprietary rating system. The POWR Ratings are calculated by considering 118 distinct factors, with each factor weighted to an optimal degree.

The stock has a C grade for Growth, Value, Momentum, and Stability. Within the Airlines industry, it is ranked #10 out of 26 stocks.

To see additional POWR Ratings for Sentiment and Quality for CPA, [click here](#).

Stock #2: Corporación América Airports S.A. (CAAP)

Headquartered in Luxembourg City, Luxembourg, CAAP acquires, develops, and operates airport concessions. It operates 52 airports in Latin America, Europe, and Eurasia.

On March 19, CAAP reported a 5.4% year-over-year increase in passenger traffic in February 2024, reaching 92.80% of February 2019 levels. Additionally, it reported its international passenger traffic to be 4.2% above pre-pandemic levels.

CAAP's trailing-12-month cash from operations of \$356.42 million is 18.4% higher than the industry average of \$300.97 million. Its trailing-12-month EBITDA and levered FCF margins of 40.33% and 16.67% are 194.6% and 152.3% higher than the industry averages of 13.69% and 6.61%, respectively.

Over the past three and five years, its EBITDA grew at CAGRs of 123.8% and 3.4%, respectively, while its net income grew at a 102% CAGR over the past five years.

For the fiscal fourth quarter that ended December 31, 2023, CAAP's revenue stood at \$365.04 million, while gross profit increased 6.4% year-over-year to \$115.38 million. Moreover, its adjusted EBITDA stood at 303.40 million, up 146.6% from the year-ago quarter.

For the same quarter, its income for the period attributable to owners of the parent and EPS stood at \$130.75 million and \$0.81, up 977.2% and 976.7% from the prior-year quarter, respectively.

Street expects CAAP's revenue for the fiscal year ending December 2024 to increase 13.5% year-over-year to \$1.59 billion. Its EPS is expected to be \$1.18 for the same period. The company surpassed consensus EPS estimates in three of the trailing four quarters.

The stock has gained 59.6% over the past year to close the last trading session at \$16.45. Over the past six months, it has gained 36%.

CAAP's POWR Ratings reflect this promising outlook. It has an overall rating of B, which translates to a Buy in our proprietary rating system.

CAAP has an A grade for Sentiment and a B for Momentum and Quality. Within the same industry, it is ranked #2.

For CAAP's other ratings (Growth, Value, and Stability), click [here](#).

Stock #1: Cathay Pacific Airways Limited (CPCAY)

Headquartered in Lantau Island, Hong Kong, CPCAY offers international passenger and air cargo transportation services. The company operates business through its four operating segments: Cathay Pacific and Cathay Dragon; Air Hong Kong; HK Express; and Airline Services.

On March 21, CPCAY February 2024 figures showed strong travel demand throughout the month, in particular during the Chinese New Year holiday period. On February 18, CPCAY achieved a significant milestone by carrying over 70,000 passengers and operating 272 passenger flight sectors, the most on a single day since the start of the pandemic. CPCAY carried 1,801,174 passengers in February 2024, an increase of 61.6% year-over-year.

On March 13, CPCAY announced the distribution of an interim dividend for the year ended December 31, 2023, of HKD0.43 per share, payable to shareholders on May 2. Its annualized dividend rate of \$0.55 per share translates to a dividend yield of 10.72% on the current share price. Its four-year average yield is 0.28%. Over the past five years, CPCAY's dividend payments have grown at a 23.5% CAGR.

CPCAY's trailing-12-month cash from operations of \$3.38 billion is significantly higher than the industry average of \$300.97 million. Its trailing-12-month EBITDA and levered FCF margins of 21.66% and 20.86% are 58.2% and 215.6% higher than the industry averages of 13.69% and 6.61%, respectively.

Over the past three years, its revenue grew at a 26.3% CAGR, while its net income grew at a 33.1% CAGR over the past five years.

For the fiscal year that ended December 31, 2023, CPCAY's total revenue and operating profit stood at \$12.11 billion and \$1.94 billion, up 85.1% and 335.7% year-over-year, respectively.

For the same year, its underlying profit attributable to shareholders of CPCAY and earnings per ordinary share came to \$982 million and 16.10 cents, compared to underlying loss attributable to shareholders of CPCAY and loss per ordinary share of \$849 million and 14.40 cents in the previous year, respectively.

Street expects CPCAY's revenue for the fiscal year ending December 2024 to increase 18.6% year-over-year to \$14.32 billion.

The stock has gained 5.5% over the past six months to close the last trading session at \$5.13. Over the past year, it has gained 4.2%.

CPCAY's robust prospects are reflected in its POWR Ratings. The stock has an overall A rating, equating to a Strong Buy in our proprietary rating system.

CPCAY has an A grade for Quality and a B for Growth, Value, and Stability. It is ranked first within the same industry.

[Click here](#) for the additional POWR Ratings for CPCAY (Momentum and Sentiment).

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CPCAY shares were unchanged in premarket trading Tuesday. Year-to-date, CPCAY has gained 3.47%, versus a 6.46% rise in the benchmark S&P 500 index during the same period.

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From her school days, Neha harbored a profound fascination for finance, a passion that steered her toward a career as an investment analyst following the completion of her bachelor's degree in commerce. Currently enrolled in the CFA program, Neha is dedicated to further enriching her comprehension of investment fundamentals. Neha's primary objective is to aid retail investors in discerning optimal investment opportunities by diligently evaluating crucial aspects of financial instruments, with a primary focus on stocks and ETFs. Her commitment lies in empowering individuals to make informed and strategic investment decisions in the dynamic world of finance.

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