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Private Aviation Is Hot, But Not All Investors Were Winners

Ever since pandemic lockdown restrictions were lifted and well-heeled travelers emerged from their bunkers, the private aircraft industry has been on a tear. Conditioned for months to social distance, droves of newcomers flocked to personal aircraft to avoid the hoi polloi at public airports and on airliners. Those who were already private jet savvy doubled down.

And the numbers show it. While the number of commercial flights are still some 30% below pre-pandemic levels, business jets have already exceeded those and are reaching levels not seen since the 2008 timeframe.

According to data provider Argus, North American business aircraft flights jumped 45% year-over-year and even 21% compared to pre-pandemic November 2019. Broken down further, fractional activity was up 51% from a year earlier, followed by corporate jumping 48% and charter seeing a 40% gain. Even in Europe where economic recovery has been slower, flights jumped 40% since November 2019 and a full 97% since last year at this time.

The rush to private flying has caused the supply of preowned airplanes to dry up to just 3 or 4% of the fleet for sale compared to 10-12% in normal times. Buyers are left with having to place new aircraft orders as their only ownership alternative, resulting in aircraft makers reporting book-to-bill ratios of 2, meaning that for every jet they delivered they received 2 more orders. This has had the effect of manufacturers fattening their order backlogs across the board.

All of this flight and sales activity would normally benefit shareholders of stocks in the space. And while that’s largely true, there have been some exceptions.

The universe of public stocks representing the private aviation segment is rather limited. Many suppliers who have a footprint in the industry also have much larger ones in the commercial airline and military world, making for a muted upside in the business aviation sector.

Those investors who foresaw the potential for business jet sales to increase have been aptly rewarded. The stalwarts of building private aircraft have all done quite well in 2021. General Dynamics, which includes the Gulfstream business jet unit, is up by 40%. Textron's Aviation division, which includes the Cessna Citation line, is up 60% . Outside the U.S. Brazil's Embraer popped 160% while north of the border Canada's Bombardier, the only pure-play business jet maker, has risen 250%.

Berkshire Hathaway, whose NetJets division is just a tiny fraction of its overall holdings, is up around a 30% year to date which is on par for the S&P 500 Index overall. With business booming, it suspended charter sales to maintain a nominal service level to its existing customers. It placed an order for up to 100 new Embraer business jets to better accommodate this unexpected influx.

Greatly hyped Wheels Up (UP), branding itself as democratizing private aviation through its membership programs, has instead democratized investor paper losses with a decline of over 50% for the year. Despite record revenues and strong member growth, the company lost money anyway, causing some investors to question whether the business is scalable. Once self-proclaiming itself as the Airbnb or Uber of private aviation during pre-IPO days, it has now pivoted claiming it's losing money just like Amazon did during its formative years. It will take more than name dropping and puffery to succeed in such a capital-intensive industry.

Likewise, the burgeoning Urban Air Mobility (UAM) industry, which promises Jetson-like pods to whisk just a few passengers around locally, is off to a rough start. Having gone public within the last year or so, Archer Aviation (ACHR), Lilian (LILM) and Joby Aviation (JOBY) have all seen their shares tumble around 40%.

Stocks rising with the private aviation tide have thus far been the established industry participants. The stock market has not been as kind to younger, often SPAC-linked companies. While the future is bright for the general aviation industry with the addressable market having permanently expanded, not all public companies will be able to execute and capitalize on it.

About Brian Foley Associates (BRiFO)

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