



Why You Should Sell Air Canada Stock Before 2020

Description

Air Canada ([TSX:AC](#)) (TSX:AC.B) is trading near its 52-week high and as well as the stock has done this year, there may not be enough upside left for investors to continue holding onto the stock.

Shares of Air Canada have risen more than 80% since the beginning of 2019, and with the stock now more than three times its book value, it may not be the deal that it once was. Here's why I'd be considering selling Air Canada stock today:

A downturn in the economy could wreak havoc on next year's results

In its most recent quarterly results, the airline's operating revenues grew just 2.5% from the previous year — and that's with the economy still performing at high levels.

If a [recession](#) does end up happening and 2020 becomes a softer year for the economy, one place that could get hit the hardest is the airline industry. Travel is a common area that corporations focus on when there's a need to tighten budgets, and the same goes for individuals who may opt to delay a vacation to a year when they have more cash coming in.

With fewer travellers, Air Canada's growth numbers could take a big hit and potentially turn negative. While at 11 times earnings investors aren't paying a big premium for Air Canada's growth today, there's nothing as deflating for a stock as a drop in revenue or guidance, and that's a scenario that could become reality sooner rather than later.

The airline is still benefiting from a low price of oil – but will it last?

The past year has generally been a good one when it comes to oil prices. West Texas Intermediate, a key benchmark in North America, has stayed below US\$60 for much of the year and there hasn't been

a lot of movement up in price.

But in September, we saw just how quickly the price of oil could take off when a disruption to Saudi Arabia's oil production sent prices [soaring](#). While that was just a temporary bump, it's a reminder of how volatile the commodity can be.

With the Saudi Aramco IPO right around the corner, there will also be an incentive for Saudi Arabia to ensure that oil prices are much stronger than they are today.

While low oil prices may remain that way for now, investors shouldn't take that as a given. Oil is a big variable in Air Canada's cost structure, and an increase in commodity prices could chip away at its profits. It's a risk that could hit the airline stock very swiftly if it ends up being realized.

Bottom line

Air Canada stock has performed exceptionally well in recent years. However, the danger is that it may have reached a peak.

As investors take on more defensive positions ahead of a possible recession, Air Canada could be a stock that's affected as a result of portfolio rebalancing.

There could be some serious headwinds facing the company next year, and investors may be better off selling the stock before it gets hit with a correction.

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