DANGER: 1 Stock to Avoid Amid the Coronavirus Panic

Description

Fears are mounting over the continued spread of the Wuhan coronavirus, as the death toll and the number of infections (over 800 at the time of writing) continue to rise. The deadly virus made its way to the U.S. earlier this week, and with the Lunar New Year weekend upon us, many pundits fear that the rate of spread could accelerate.

While there’s no global epidemic yet, one can only expect that many casual travellers are poised to postpone travel plans to minimize their risk of contracting a virus that we still know very little about.

Indeed, shockwaves have already made their way through various travel, airline, and energy stocks. But given the current rate of infection, one would be wise to steer clear of travel and airline stocks, which could fall into a tailspin.

The airlines are in for turbulent times

While there’s no telling how bad the international coronavirus outbreak could get, Canadian investors would be wise to steer clear of the vulnerable airlines like **Air Canada** (TSX:AC)(TSX:AC.B), which could shed a considerable amount of the gains it had posted over the last few years.

In a prior piece, I’d urged investors to ditch Air Canada stock, citing that the valuation was no longer as compelling and that economic pressures could weigh on upcoming quarters. Add the recent virus outbreak into the equation, and the stock suddenly became that much riskier.

Given the airlines are a top disease vector, fears over the spreading coronavirus have the potential pave the way for a massive quarterly miss. While shares of Air Canada have already fallen over 7% on coronavirus-related news, it’s worth remembering that the dip is nothing more than a tiny blip when you take a look at the one-year chart. As such, the stock remains overpriced given the new risks that could fuel a 20-30% peak-to-trough decline.

Foolish takeaway

Air Canada stock trades at 10.8 times next year's expected earnings and 0.7 times sales. It's hardly an expensive stock, but given shares have traded in the single-digit P/E range in the past and new risks have introduced themselves in recent weeks, shares could see a sudden reversal of momentum over the near term. As such, I'd urge investors, even the long-term thinkers, to avoid the stock for now, as a far better entry point could be on the horizon.

Not to knock Air Canada and its remarkable operational transformation, but after its historic multi-year run, the risk/reward trade-off has finally become less favourable.

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