How Low Can Air Canada (TSX:AC) Go?

Description

It's official. **Air Canada** (TSX:AC)(TSX:AC.B) stock has fallen into a tailspin, with shares plunging nearly 40% since its mid-January highs — a period when I issued a dire warning to investors that the stock was on the cusp of a crash.

You were warned about the turbulent times!

At the time, the stock stood out as overvalued given the new slate of risks with the potential to take a massive bite out of the firm's revenues. Moreover, I also highlighted the risk that fears would still linger long after the coronavirus had been eradicated.

Even without the COVID-19-related risks, however, Air Canada was still frothy and overdue for a massive pullback, as I noted in December — a period when the stock was near its all-time high, with a trailing P/E of 12.3.

Today, Air Canada shares find themselves testing a healthy support level at $32 and change. The stock now reeks of value at 5.9 times trailing earnings, but given that the stock has still yet to fall to its 52-week lows, I'd urge investors to exhibit caution with the name, as it will take on amplified damage should the global epidemic get even worse over the coming weeks.

Fasten your seatbelts: the stock could continue to nosedive

If the $32 support level doesn't hold, the stock could stand to surrender a considerable chunk of the multi-bagger gains posted over the last four years.

While the interruption to Air Canada's business may be temporary, it doesn't mean the stock can't crumble like a paper bag over the near- to intermediate-term.

Between now and when the company returns to full speed, the stock will continue taking a brunt of the damage. With the name under the crosshairs of most panicky investors, I'd say that Air Canada is a stock that's better to be bought on the way up than the way down.

Travel stocks have become toxic

Sure, you could miss out on a sizeable upside correction on good news, but it's better to miss on a bit of upside than to ride the stock on the way down.

For an example of how much downside the airline can have amid the panic, look no further than the cruise giants like **Carnival**, which finds itself down around 50% on COVID-19 fears.

All it will take are a few stories on airline passengers being quarantined and things could get ugly for the airlines. And while Warren Buffett may be a net buyer of the airlines after their latest dip, he has over $120 billion worth of dry powder to average down his positions with.

Over the coming weeks, you can be sure that Buffett will be cheering for the airlines to get pummelled so he can pick up more shares at better prices.

Foolish takeaway

If you're keen on bagging a bargain, the airlines could be a solid long-term bet here. But for most investors who don't want to see their positions down in the deep double digits before it comes time to rebound, I'd recommend looking elsewhere.

After the recent correction, bargains are abundant, so don't feel obliged to chase the fastest of falling knives if you want to reduce your chances of getting hurt.

Stay hungry. Stay Foolish.

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