Air Canada Stock (TSX:AC) Tanks 70%: Here's the Perfect Time to Buy

Description

Things just went from bad to worse for **Air Canada** (TSX:AC)(TSX:AC.B). The ailing airline is reportedly slashing its capacity in half while eliminating routes amid government warnings. Air Canada stock is now down around 70% from its peak levels. At that time, I had warned Canadians to sell shares, noting valuation concerns and the new slate of risks that were being underplayed.

While it's tempting to catch the falling knife after the TSX Index tumbled over 30% from the top, I'd urge investors to exhibit caution. There's no easy way to catch a falling knife, and if you believe that the coronavirus (COVID-19) concerns could go from bad to worse, you may have a much better entry point if you exhibit patience.

This disease could have the potential to last months. And if the markets remain open, there could be a heck of a lot more selling in Air Canada stock, which is in one of the most vulnerable industries. Moreover, Air Canada has $9.3 billion in total debt that will start to be a growing concern as liquidity dries up.

Nobody knows how much longer business will drag, but you'd be wise not to try and predict when the coronavirus will go away. Rather, it'd be a better idea to buy the stocks of less-affected firms to limit your potential damage.

But, if you're like Warren Buffett, a calculated investor who's keen on boarding the airlines, there are steps you can take to limit your damage as you look to lock-in potentially deep value in the plunging Air Canada.

Air Canada stock: How to buy after the big tumble

First, there's no perfect time to buy the name. Nobody knows when the stock will hit bottom until after the fact. So, do yourself a favour and don't try to put all of your money to work at once. Odds are you'll be buying far from the bottom, and your losses will rack up quickly!

Like with most falling knives, I'd recommend dollar-cost averaging with half or quarter positions. In the case of Air Canada, I'd recommend buying in fifths while spacing out your purchases in equal time increments.

At the time of writing, Air Canada stock trades at 1.9 times enterprise value/EBITDA, which is ridiculously cheap. Given the unhealthy state of the balance sheet, though, I'd say that fears could quickly mount should the federal government go silent with regard to corporate bailouts or interest-free corporate loans.

It's the days of airline bankruptcies all over again. Only this time, things are arguably much worse. Travel bans and a subsequent recession could act as a one-two punch to the gut of the airlines and not even operational efficiencies efforts can help them this time.

Second, one must not rule out a doomsday scenario where Air Canada stock plunges as hard as it did during the 2008 Financial Crisis. A +90% peak-to-trough drop could quickly happen again, and it could take more than a decade to recover. As such, investors need to weigh the risks appropriately because a cheap stock can always get cheaper.

Foolish takeaway

The perfect time to buy Air Canada?

It doesn't exist. The stock could easily fall to the single digits within weeks, so don't try to time the bottom. Instead, buy incrementally on the way down.

Debt is starting to weigh, and even after the coronavirus is eradicated, there's no telling how much long-lasting damage will be left to the Canadian economy. If a quarter of jobs are wiped out as a result of the virus, Air Canada stock's recovery could take years and not months.

Stay safe. Stay Foolish.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date
2025/08/19
Date Created
2020/03/19
Author
joefrenette