This TSX Stock Is Cheap, but Is It Too Risky?

Description

With markets falling drastically in recent weeks, many stocks are starting to look attractive to long-term investors. Some **TSX** stocks, like the banking stocks, have retreated in such a way that their P/E ratios and dividend yields are extraordinary.

Generally, it's a good idea for long-term investors to scout out deals on discounted stocks. However, it's crucial that investors avoid catching a falling knife.

It can be easy to fall for value traps during these times. Sure there might be businesses that recover quickly from this crash, but there are also businesses in deep trouble.

Today, we'll take a look at one such TSX stock that's been beat up recently, and may be in a bad spot going forward.

Air Canada

Air Canada (TSX:AC)(TSX.AC.B) is a leading Canadian airline company. It offers flights for domestic, Canada-U.S., and international travel. Between its main flagship line and Air Canada Rouge, the company operates a fleet of 252 aircrafts.

As an airline company, Air Canada is under immense pressure recently as countries around the world are closing borders. Plus, if things get worse, Canada could possibly restrict domestic travel even further as well.

For this TSX stock, business is grinding to a halt. Late last night, Air Canada announced it would be laying off over 5,100 workers.

None of this news bodes well for Air Canada. Of course, there's always the possibility of a government bailout. However, there's probably better investments to be made than betting on an airline company to get bailed out.

The future of this TSX stock

When a company has the kind of debt and slim margins that Air Canada has, it makes an economic slowdown worrisome. It's worth noting that Air Canada is probably in better financial shape now than in 2008, but the COVID-19 pandemic also offers unique challenges.

Today, people aren't simply buckling down on spending — the economy as a whole is ceasing operations (except for essential services). No one can know for certain how long borders might stay closed.

Plus, as we're dealing with a serious health issue and not simply a financial problem, the consumer's general willingness to re-engage in the economy could take longer to come back.

The market has been a whipsaw recently, and Air Canada is no exception. Even though this TSX stock is trading up 15.64% today, it's still down nearly 70% from exactly one month ago.

Investors should expect more turbulence ahead, as world leaders are continuing to impose stricter travel restrictions seemingly by the day. The potential lost earnings for this TSX stock are soaring through the roof.

The bottom line

Long-term investors with plenty of cash reserves are bargain hunting during the market crash. Some TSX stocks offer great long-term growth potential at current levels. However, some businesses are in serious danger, and Air Canada is probably one of them.

Of course, the government bailout might come, but why bet on something like that? During these times, there are safer options with better long-term return potential to boot.

While some investors might be salivating at the chance to pick up Air Canada at these prices, it's time to shy away from this TSX stock for now.

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