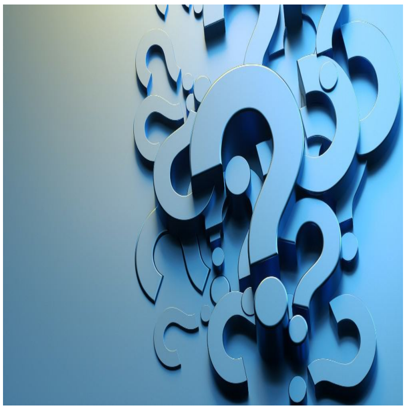

Should You Buy Airline Stock?

Description

The coronavirus pandemic has spread uncertainty across almost every market and supply chain on the planet. In the past few weeks, we've seen service industries and borders close.

In a similar vein, air travel between countries and continents remains frozen nearly globally. This has rattled the airline industry to its core, prompting many investors to dump airline stocks in lieu of more defensive holdings.

But what of **Air Canada** (TSX:AC)(TSX:AC.B)? Does Canada's flag carrier still warrant a place in your portfolio?

Here's where Air Canada stands now

Nearly every carrier has announced flight cancellations through April and Air Canada is no exception. The airline is operating on an extremely limited domestic and cross-border schedule at the moment. The new reduced schedule will see Air Canada serve 13 U.S. airports and 40 domestic airports only.

On the international front, Air Canada's routes are being trimmed down to just six routes. In other words, Air Canada's network will see an 80% reduction, with the Rouge subsidiary being effectively grounded.

Those route cancellations will also trickle down to staffing cuts. By example, the union representing Air Canada's flight attendants stated last week that over 5,000 flight attendants would be laid off.

As an investment option, the first inclination on hearing any of this would hardly qualify as an opportunity to buy airline stock.

After all, Air Canada was coming off a decade or more of unprecedented growth. As recently as four years ago in 2016, Air Canada was trading at below $8 per share. As at the time of writing, even with these painful cuts, the stock is still trading at well over $12.

While could be a good exit ramp for long-term holders of the stock, there are reasons to hold on to your investment a little longer, or even buy more.

Why you might want to Buy Air Canada now

Apart from long-term investors who are still in the black, there are other reasons to consider the airline at this juncture.

First, there's the cargo business. While recreational and business travel may be temporarily shut down, cargo services (of which passenger airlines often double up on) are still needed. If short, the global pandemic that decimated passenger traffic could be offset in part by a growth in cargo.

Medical suppliers and businesses worldwide are heeding the call to manufacture much-needed supplies for hard-hit areas.

Second, let's not fully discount the passenger segment. As mentioned earlier, there are still a few routes running such as the popular New York-Toronto-Montreal business triangle. On the international stage, the six remaining routes (until the end of April) are there to ferry people stuck in or out of Canada.

Perhaps the most important factor to consider is that this slowdown impacts nearly every segment of the economy. This is not just an airline industry slowdown, but also a global one.

Where airlines differ is that they still have their aircraft to support the economy and grow their business however possible. In some ways, this makes airlines defensive companies that could prove invaluable once the next few weeks of self-isolation are over.

What should you do?

It's impossible to forecast where the market will bottom out. There's also no guarantee that Air Canada's network will resume operations in April. In other words, there is a significant risk in buying airline stock, particularly for investors with shorter timelines.

Investors with longer timelines that have an appetite for risk may want to consider a small position in Air Canada.

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