



Should You Buy Air Canada (TSX:AC) Stock Right Now?

Description

Few stocks have been hit harder in the coronavirus bear market than **Air Canada** ([TSX:AC](#))(TSX:AC.B). Down 65% from its February 25th price, it has gotten absolutely decimated. With the federal government issuing travel advisories and customers cancelling their trips, the company is losing colossal amounts of revenue. While we won't know exactly how much the company has lost until it releases earnings for the current quarter, we can safely assume it will be significant.

Depending on how long the COVID-19 outbreak lasts, Air Canada could underperform for many more months. If travellers remain wary even after the outbreak is over, then the company could lose money for years. However, Air Canada *will* bounce back sooner or later. Nobody can say when the recovery will occur, but with a [healthy balance sheet](#), AC is capable of surviving a tough year. The question is, do you buy right now or wait for an even cheaper price?

AC is extremely cheap right now

One thing to keep in mind about AC stock is that it has gotten *very* cheap. With \$5.43 in EPS and a \$15.11 stock price, it's trading at just 2.73 times earnings. Of course, this year's earnings will be lower than last year's. That's all but guaranteed. However, even if the company's earnings fall by 50% for this year, its stock will end up trading at just 5.5 times earnings at today's price. That would make AC one of the cheapest large cap stocks on the TSX.

Business is sure to bounce back

Another thing to keep in mind about Air Canada is that its business *will* bounce back. Nobody can say *when* it will, but it will likely be in less than a year. The Spanish Flu outbreak — the worst pandemic in modern history — lasted approximately two years. If the current contagion lasts that long, then it should be about 20 months until it's back to business as usual (since COVID-19 was first detected in December).

However, most experts are not expecting a two-year outbreak. China's curve has flattened

dramatically, and Italy's daily new hospitalizations declined for the third straight day yesterday. If these trends persist, we should expect the outbreak to last less than a year.

One risk factor

One risk factor you do need to keep in mind for airlines right now is [insolvency](#). A business can't service debt with no revenue coming in, and Canada's passenger airlines are hardly doing any business right now. While there's still a certain amount of domestic and business travel going on, that's fallen off too. Depending on how long this goes on for, Air Canada could be forced to re-finance or take a government bailout. It wouldn't be the first time the company faced such a risk. In 2004, it entered bankruptcy protection, partially in order to ward off hostile takeover bids. It walked that one off, eventually becoming a bigger and more profitable company than ever before. We can expect the same to happen this time around.

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