



Air Canada (TSX:AC): My Top Speculative Stock to Beat the Coronavirus Crash

Description

The coronavirus pandemic sparked a [massive market rout](#) that saw the leading **Dow Jones Industrial Average** suffer its largest one-day fall ever. The Dow is down by 24% since the start of 2020, and the TSX has followed it lower, with the **S&P/TSX Composite** having lost 26%.

There are signs that stocks will [fall lower](#) over coming weeks. Among the hardest-hit industries are airlines, retail, and entertainment stocks. The market crash has, however, created an opportunity to acquire quality stocks at very attractive valuations.

I am not a tremendous fan of airline stocks, and they will be among the businesses most harshly impacted by the coronavirus pandemic. Nonetheless, Canada's flag carrier **Air Canada** ([TSX:AC](#))(TSX:AC.B), which has chalked up a massive 70% loss for the year to date, is a top high-risk, high-reward speculative play on an eventual economic recovery.

Improved fundamentals

Prior to the coronavirus pandemic, Air Canada had been on a roll. The carrier posted record annual operating revenue of \$19 billion, a 13% year-over-year increase in EBITDA, a whopping 56% rise in free cash flow, and that earnings per share had grown almost 42-fold compared to a year earlier.

On top of these impressive numbers, Air Canada reduced its net debt by a whopping 45% year over year to \$2.8 billion. That is a very manageable 0.8 times its annual EBITDA. As a result, Air Canada's degree of leverage is significantly lower than many other publicly listed airlines.

When that stronger balance sheet is considered along with the carrier finishing 2019 with a whopping \$5.9 billion in cash and short-term investments, Air Canada can weather a sustained downturn.

Those results highlight the strength of Air Canada's business and its strong brand.

Battening the hatches

Investors should brace themselves for some shocking numbers over coming months. The pandemic and the measures to contain the spread of coronavirus will have a harsh impact on air travel. It will take some time for many countries to open their borders to non-essential travel. Various forms of restrictions, including travel bans, will be in place some time.

Tourism will suffer multiple hits. Not only will travel bans impede movement, but the pandemic has created considerable fear regarding travel, which will take time to wane. Demand for flights will remain under pressure, because of the emerging sharp economic slump triggered by the coronavirus.

A key risk is the unquantifiable impact of the pandemic on society and the economy. It is worsening in many countries, notably the U.S., and it is likely that restrictions on movement such as travel bans will remain in place for some time. Economists are expecting a global recession to occur, which some are speculating will be deeper than the 2008 Great Recession.

Air Canada is preparing itself for the rough road ahead. It is temporarily laying off 15,000 employees and substantially cutting capacity by 85-90% in response to the tough operating environment that now exists. Air Canada is also focused on reducing expenses and capital spending by \$500 million, while drawing down lines of credit to boost its liquidity by around \$1 billion.

If that is not enough to sustain the airline, there is the growing likelihood that Air Canada will receive some form of bailout and support from Ottawa during 2020.

Looking ahead

While it will take a considerable amount of time for air travel to return to normal, with some analysts estimating years, Air Canada will survive. The airline is taking all measures that it can to protect its balance sheet and business. When coupled with its solid financial position and significantly reduced net debt, Air Canada will emerge from the current crisis.

While it is a high-risk contrarian investment, the risk/reward equation is in favour of investors, making now the time to buy.

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