1 Top Airline Stock to Buy in the 2020 Market Crash

Description

The latest market crash and bear market has created one of the best opportunities in a decade to build wealth. The leading **Dow Jones Industrial Average** has lost a whopping 26% since the start of 2020. The **S&P/TSX Composite** has followed it lower, plunging by 24% to see the index at its lowest point since 2016.

The coronavirus pandemic is expected to have a sharp impact on the global economy. Even interest rate cuts and significant fiscal stimulus will do little to breathe life into the economy over the short term. Governments have introduced restrictions on movement, travel bans, and forced all but providers of essential services to close.

Unsurprisingly, many investors are in shock over the market losing in a month what took four years to gain. Many businesses will require government bailouts if they are to survive what some economists are tipping will be the worst recession since the Great Depression. While there is worse ahead for stocks, it shouldn't prevent you from taking the opportunity to buy quality stocks at what are bargain-basement prices.

Buy this airline today

Among the worst-performing Canadian stocks is **Air Canada** (TSX:AC)(TSX:AC.B), which has lost 69% since the start of 2020. During the 2008 financial crisis, when international credit markets seized up, triggering the worst economic slump since the Great Depression, Air Canada plunged to below $1 per share. Canada's national flag carrier almost had to declare bankruptcy.

Had you bought Air Canada at the end of the last bear market in 2010, by the end of 2019, you would have earned a massive 2,085%. This highlights that Air Canada's stock grew 22-fold in value over that period, meaning that a $10,000 investment in 2010 would've been worth $218,557 at the end of 2019.

The latest decline in Air Canada's stock has created a similar opportunity, although it is important to recognize that the airline's value could fall further.

It will be some time before air travel returns to normal. The coronavirus pandemic has forced governments to close their borders and implement travel bans to prevent the spread of the virus. The pandemic has created an apprehension of travelling, particularly by air. It will be some time before tourism and airline travel returns to normal.

Preparing to weather the storm

The fallout for airlines, hotels, and restaurants will be far worse than the last major recession. Analysts expect that Air Canada's 2020 annual earnings will fall by around 26% year over year. The short-term earnings hit could be far worse. Most of the airline's profitable routes are shut down and its fleet is grounded.

While that means its expenses will fall substantially because of significantly lower fuel consumption and less maintenance, cash flow will plunge. Some pundits are estimating that a drop in the order of 50% or even more is likely, and the full impact won't be seen until the second or even third quarter-reporting season.

Nonetheless, bankruptcy doesn't appear to be a threat. Air Canada has slashed costs, temporarily furloughed a larger proportion of its employees, and reduced executive salaries. It has also accessed a $1 billion line of credit to boost liquidity. There is every indication that a government bailout will be considered for the airline as part of Ottawa's broader stimulus package.

For these reasons, while the next year will be extremely difficult for the airline, it won't declare bankruptcy and will rally significantly once a recovery is in sight.

Foolish takeaway

The sharp decline in Air Canada's value has created an opportunity to acquire a quality stock, which will soar once the economy returns to growth. The airline will grow at least threefold from its current market value, making it a multi-bagger and underscoring why now is the time to buy.

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