Air Canada (TSX:AC) Stock Hit a Critical Point: Should You Buy or Avoid it?

Description

Air Canada (TSX:AC)(TSX:AC.B) has been one of the most affected Canadian companies in this public health crisis. And the company isn't alone. The whole airline sector is seeing the worst of this pandemic.

default watermark

It's not like the previous market crashes and recessions, when people didn't fly because they were saving money on travelling. Now, people are staying on the ground and in their homes for medical reasons. Health concerns of flying are much more serious than monetary concerns. And its impact is pronounced.

Vancouver International Airport's chief executive said in an interview that they are seeing only 10 to 20 thousand passengers a day, where they used to see at least 70 thousand passengers a day on average.

As the country's premier airline, Air Canada is absorbing a lot of impact from low passenger activity — so much so that it's cutting its operations by 85-90% in the second quarter of 2020 compared to the second quarter last year. The company is temporarily cutting its workforce by half, about 16,500 strong, which includes 15,200 unionized employees and 1,300 managers. The employees are on an "off-duty" status, while the managers are furloughed.

What does it mean for investors?

Substantially subdued operational activities and the "layoff" of half the workforce might not make Air Canada top the list of your potential investments. But the company is trading at an amazing discount right now. At $17.14, the share price is down 71% from its value in January. Buy-the-dip opportunities do come, but this level of dip is relatively rare.

If we look at the history of Air Canada, especially five years before the crash, the company had an amazing run. The stock grew over 300% between April 2015 and January 2020. Hypothetically, if the company regained its market value of around $50 a share and then grew 300% in the next five years, investors could get monstrous returns from this down-in-the-rut stock in the next six years.

One more thing to consider is that Air Canada doesn’t pay cash dividends. So, investors only depend upon the capital gains when they invest in Air Canada. If the government bails Air Canada out, or the company goes through significant restructuring, as it did in the past, the share price can go right up after the pandemic ends. That would mean decent capital gains for investors.

Foolish takeaway

Whether you should buy Air Canada stock now or steer clear depends on your tolerance for risk. If the pandemic rages on even for a couple of months longer, then your chances of losing everything are very high. The sooner things return to normal, the better it is for Air Canada investors.

The risk of bankruptcy is possible, so AC is a win-big, lose-big stock right now. So, if you are willing to put it all on the line, go for it. But if you want to play it safe, Air Canada might not be for you.

default watermark

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date
2025/08/26
Date Created
2020/04/07
Author
adamothman

default watermark