



Why Air Canada (TSX:AC) Stock Won't Fall to \$1 Again

Description

It's easy to see why some investors are drawn to **Air Canada** ([TSX:AC](#))(TSX:AC.B) stock. It had gone from being a \$1 stock to a \$50 stock for a 50-bagger from 2009 to 2019. With a meaningful investment of \$20,000, investors would have [arrived at \\$1,000,000](#) in 10 years!

The turnaround opportunity was not easy to stomach, though. It came with a lot of volatility, and the company almost went bankrupt.

Currently, airline stocks like Air Canada are facing unprecedented challenges from the coronavirus crisis. Having a strong balance sheet would certainly help them ride through this turmoil.

The short- to medium-term pain is probably not over for airline stocks. However, I'm not counting on Air Canada stock falling to \$1 again.

Here are several key reasons.

The coronavirus's effect on global economies

Global economies are functioning with limited capacity, as many malls are closed, supply chains are broken, and people work at home wherever possible.

Thankfully, people who have already been infected with COVID-19 and have recovered from it should have developed antibodies for the virus. So, they're pretty much immune. Moreover, countries around the world are in the race to develop an effective vaccine for the coronavirus.

They will eventually succeed. And let's hope a working vaccine will happen sooner rather than later.

We may be further along than we think

According to Anthony Fauci, the director of the National Institute of Allergy and Infectious Disease in the U.S., between 25% and 50% of people infected with COVID-19 don't show any symptoms of illness

but can transmit the virus to others.

This is both good news and bad news. The good news is that more people may be infected but are not showing any symptoms. So, we may be further down the path than we thought.

The bad news is that some of these asymptomatic people may be spreading the virus without knowing, because they're not wearing masks. So, keep masks on, wash your hands, and try to keep a distance of two metres from others.

Air Canada is in a better shape

Air Canada is going to get a big hit on earnings from forced flight cancellations, lower travel demand, and higher costs for having higher standards to sanitize planes to protect passengers and staff.

However, the company is in much better shape than it was in 2009. For example, Air Canada ended 2009 with total cash of \$1.4 billion versus adjusted net debt of \$5.8 billion. In comparison, it ended 2019 with total cash of nearly \$5.9 billion versus net debt of \$2.8 billion.

Experienced CEO

Calin Rovinescu is the president and CEO who led Air Canada out of the last recession. He stepped up to the roles in April 2009. And he can help the company navigate through the pandemic situation.

Mr. Rovinescu has extensive experience. From 2000 to 2004, he was the executive vice president, corporate development and strategy of Air Canada. As well, he held the position of chief restructuring officer during Air Canada's 2003-2004 restructuring. From 2004 to 2009, Mr. Rovinescu was a co-founder and principal of Genuity Capital Markets, an independent investment bank.

The Foolish bottom line

Unfortunately, there's no way around the coronavirus storm but to walk through it. Air Canada will need to at least hold out through 2020 for a working vaccine.

Thankfully, the airline is nowhere near bankruptcy in this downturn. In fact, its financial position is much stronger than it was in 2009 during the last recession. Moreover, with the (semi-)lockdowns around the world, hopefully, we're closer to the peak of coronavirus cases than we think.

Air Canada stock trades at about 4.9 times its estimated 2021 earnings, which is very cheap.

However, no one knows when the pandemic will be over and the economy will recover. If Air Canada stock sounds too risky to you, check out this lower-risk [dividend stock](#) that pays you to wait.

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