



## Buy Air Canada (TSX:AC) Stock Now if You're Willing to Hold for 2 Years

### Description

**Air Canada** ([TSX:AC](#))(TSX:AC.B) stock has taken a massive hit to the chin amid the coronavirus (COVID-19) pandemic. Airline revenues and earnings are poised to tank over the next quarter, making traditional valuation metrics such as price-to-earnings (P/E) and price-to-sales (P/S) less useful for valuing the airline stocks.

With substantial multiple expansion as a result of rapidly decaying near-term top- and bottom-line numbers, it's tough to form an intrinsic value range on the name given the uncertainties following COVID-19. The stock currently trades at 0.9 times book, with shares now down 67% from the top.

### A bet on Air Canada stock is a bet on a return to normalcy by year-end

If you're in the belief that airlines will be fully able to take to the skies again by year-end, it may prove to be a wise decision to start buying shares today before the stock has an opportunity to correct to the upside on news that COVID-19 is showing meaningful signs of dissipating at the international level.

Many analysts see COVID-19 disappearing by year-end, and if there is indeed pent up demand for air travel, I wouldn't at all be surprised to see Air Canada stock doubling by year-end and tripling by the conclusion of 2021.

### Air Canada is unlikely to go bankrupt

Some investors are worried that Air Canada may be headed for bankruptcy amid the profound disruption caused by COVID-19. Unlike the U.S.-based airlines, Air Canada didn't waste a tonne of its profits on share repurchases, and as a result, the Canadian airline is looking a lot more liquid than some of its peers south of the border.

Air Canada still has a tonne of debt weighing down its balance sheet, but the company is liquid enough

to navigate these rough waters on its own.

The company has a stable liquidity position, limited debt coming due amid the coronavirus crisis, and [recent furloughs](#) will allow Air Canada to survive the coronavirus onslaught and emerge from the other side of the infection curve soaring back toward its all-time highs.

If you have a look at the balance sheet, bankruptcy looks like a long shot for Air Canada under the assumption that COVID-19-induced travel restrictions will be lifted in the latter part of the year. That's not to say that you should back up the truck on Air Canada stock all at one go, though.

## The real risk to Air Canada stock at these depths

Infectious disease expert Dr. Anthony Fauci warned that the coronavirus could be seasonal in nature. Should the coronavirus not be eradicated, we could witness a resurgence of the insidious virus, sparking another wave of pain for the airlines. I view such a viral resurgence as the real threat to the survival of the airlines.

In any case, the federal government will likely be there with bailout money for Air Canada should worse come to worst.

## Foolish takeaway

This isn't the first time Air Canada stock has fallen under a substantial amount of pressure, and it won't be the last. Air Canada isn't necessarily *too big* to fail with a mere \$4.3 billion market cap; it's *too essential* to the Canadian economy to fail.

As such, long-term investors with a time horizon of at least two years should feel comfortable initiating a starter position today with the intention of adding incrementally over the next several months.

Stay hungry. Stay Foolish.

### CATEGORY

1. Coronavirus
2. Investing
3. Stocks for Beginners

### TICKERS GLOBAL

1. TSX:AC (Air Canada)

### PARTNER-FEEDS

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

**Category**

1. Coronavirus
2. Investing
3. Stocks for Beginners

**Date**

2025/09/16

**Date Created**

2020/04/10

**Author**

joefrenette

default watermark

default watermark