



Air Canada (TSX:AC): Should You Buy Before the Stock Skyrockets Into the Stratosphere?

Description

It's been a [turbulent](#) few months for **Air Canada** ([TSX:AC](#))(TSX:AC.B). The airline's stock price nosedived over 75% from peak to trough due to the devastating impact of COVID-19. Flights are grounded, people are self-isolating and most travel plans are on pause.

Even after COVID-19 is done, many people will still be wary of metal tubes with recycled air and germmy surfaces.

Over time, however, I do see the industry enjoying pent-up demand. Canadians will once again want to travel to be with loved ones. Many will head off on that delayed vacation.

Investors should look ahead to the fate of airlines in the post-pandemic period.

Air Canada: How will the airline rise again?

Nobody knows when airlines will fully take to the skies again. But as a long-term investor with a 10-year time horizon, it shouldn't matter.

This isn't the first pandemic and it's not going to be the last one. Demand for air travel is likely to be stable over prolonged periods. There will be massive profits to be had in bull markets and amplified downside in bear markets.

One thing that I don't see happening again is a complete implosion (or near-bankruptcy) like the one suffered following the global financial crisis. Believe it or not, Air Canada is now a more efficient airline, with a better liquidity position. Though, it could have been *much* better if not for the \$800 million spent on share buybacks since 2015.

Air Canada: Turbulent times ahead, but don't expect a crash landing

Government-mandated travel restrictions are cutting revenues down to the bone and while such restrictions will be temporary in nature, the high fixed costs of the airlines do not bode well for the odds of their survival over the intermediate term.

Had Air Canada been in the form it was prior to the Great Recession, it would probably be on life support right about now. But I think Air Canada is in a spot to make it through these dark times. In addition to meaningful operational improvements made over the past decade, Air Canada has a decent liquidity position. There are hopes of a V-shaped recovery on the horizon and oil prices may remain at newfound depths for a longer time. The underlying economics of the airline business could stand to improve further in a post-pandemic world.

Moreover, you can bet that Air Canada will look to save even more for a rainy day when times are good and profitability is through the roof after this pandemic is over.

Many airlines, including Air Canada, wasted tonnes of cash on share repurchases. They must now be regretting their decision (Air Canada [suspended its buyback program](#) on March 2). You can be sure that this whole ordeal will be a learning experience for the airlines as they look to pull through another turbulent quarter.

Given the cyclical nature of the airlines, they may need to save a rainy day cash pile akin to the float of an insurance company to reduce their reliance on government bailouts when crises happen.

Foolish takeaway

Air Canada isn't going under at the hands of the coronavirus. It's a far better-positioned player [THAN OTHER AIRLINES? THAN IN THE PAST?] in an arguably more dire [THAN THE GLOBAL FINANCIAL CRISIS?] environment for the airlines.

Even with a recession looming, I see Air Canada as a top long-term performer following its unprecedented sell-off. This black swan event will serve to make the airline even more resilient in the face of the next inevitable downturn. Who knows? Airline share repurchase programs may become taboo after this ordeal!

That said, I expect Air Canada stock will remain super volatile over the near- to intermediate-term, as we learn more about the economic damage done by the coronavirus. If you're investing for the next 10, 20, or 30 years, though, don't let the short-term fluctuations deter you from the name.

Stay hungry. Stay Foolish.

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