



Is Air Canada (TSX:AC) Stock a Buy After Last Week's Monster Rally?

Description

Airlines have seen a 95% drop in flights, and the travel industry could find itself down hundreds of billions of dollars. The economic pain from the spread of COVID-19 isn't going to let up any time soon. So, should value investors and contrarians really be snapping up shares in **Air Canada** ([TSX:AC](#))(TSX:AC.B)?

Air Canada: A strong contrarian thesis

It's been a turbulent decade for Air Canada. In a moment, we'll take a brief look back over its last 10 years of trading. First, though, let's recap the general trend of the last few weeks.

Air Canada tanked, as investors woke up to a plane-free world. The spread of COVID-19 has all but grounded the world's air traffic. Some areas remain resilient, and flights are there for those that truly need them. But the sudden drop in air traffic has been staggering.

The drop in air traffic has had some unforeseen effects. Air pollution is down, as pictures of blue skies around the world attest. Weather has become harder to predict. And, of course, airline stocks have been in the gutter. **Bombardier** has been particularly volatile, having drastically [stripped down its operations](#). Its rail sale to Euro rail giant **Alstom** was a rare positive for Bombardier, though it's still strongly oversold.

However, Air Canada rallied 46% last week. It's an incredible upswing. In fact, Air Canada is currently trading 132% above its 52-week low at the time of writing. Short-term traders must have made some big bucks this week. But the stock is still down 57% on average in the last three months. So, is it a buy? And who would have thought at the start of the year that this stock would exhibit this much volatility?

But to understand why this stock could be a [long-term buy](#), let's review some of its recent history.

At the start of 2020, Air Canada was looking at 10-year total returns of 3,680%. Anyone who'd pumped \$5,000 into this name in 2010 would have been sitting on shares worth \$189,000. It was quite the

turnaround. Ten years ago, it had faced a similar situation to the one it is now enduring. Air travel was low after the financial crisis, and Air Canada was dealing with a pension crisis. Bankruptcy beckoned.

However, Air Canada was able to soar above pilot strikes, labour disputes, tech upgrades, a re-branding push, and more. Everything that was thrown at it, from frothy fuel prices to stiff competition, Air Canada overcame. Air Canada is arguably the airline to go for if you want a wide-moat business with an air-tight track record. A market rally could send this name soaring.

The bottom line

Is Air Canada is a one-way ticket to bankruptcy or a long-term upside machine? As it turns out, a stock can flirt with both states if it's volatile enough. And Air Canada is nothing if not volatile at the moment. It may be understandable that pundits and analysts have been divided over this stock. But the time has come to start buying the dips.

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vhetherington

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