



Could Air Canada (TSX:AC) Stock Drop to \$0?

Description

COVID-19 has proven to be absolutely devastating for the travel and tourism industry. The current state of the aviation sector can be best understood by the fact that airlines are forced to operate one-passenger flights.

A market intelligence report regarding the travel and tourism industry indicates that many airlines all over the world will go under by the end of next month.

Amid such a bleak situation, what are the chances that **Air Canada** ([TSX:AC](#))(TSX:AC.B) could drop to zero? Let's try to find that out.

It's 2003 all over again

Before [COVID-19](#), there was a SARS-CoV strain commonly known as the SARS virus that broke out in 2003. Unlike the coronavirus, SARS didn't break out and spread across every continent. It was contained and remained concentrated in Asia. Nonetheless, its industrial and economic fallout was felt across the Pacific as well.

For instance, that was the time when Air Canada went into bankruptcy mode and grounded 40 of its planes and slashed its route network by 17%. This time around, the outbreak is far more severe and has hit both domestic and international operations of the airline.

Air Canada has decided to send more than 10,000 of its employees home, including 1,300 managers, because of the "unpredictable extent and duration" of the coronavirus pandemic. After seeing a high of \$52 in mid-January, Air Canada's stock is down by 70% since then.

It is currently trading around \$15 with a P/E ratio of 2.79 — one of the lowest valuations in its history. The way things stand today, one can't say that the stock has seen its worst. In the coming days, Air Canada stock may drop to single-digit territory.

Air Canada is not too big to fail

Many investors think that Air Canada is too big to fail. However, that might not be the case. Firstly, it doesn't stand on significant market capitalization. When companies with a market cap north of \$50 billion are struggling, an entity with a value of around \$4 billion is entirely susceptible to bankruptcy.

Also, we must remember the 2003 incident, when Air Canada filed for bankruptcy and took 18 months to recover.

Government may intervene

One of the most persuasive reasons that Air Canada may not drop to zero is a possible bailout package by the government. The Canadian government might not want to replay the 2003 bankruptcy episode all over again.

This time, [airlines](#), including Air Canada, haven't faltered due to in-house mistakes and policies. Also, the government may need robust cargo operations post-lockdown to revive the economy. These reasons make it all more likely for a bailout to happen for the aviation industry and Air Canada.

Zero or not zero, the stock may remain down

Even if Air Canada doesn't go bankrupt, and its stock doesn't drop to \$0, it is still a long way for the airline to recover from the TSX bloodbath, where its stock has lost more than half of its value in the last two months. The next two months will be crucial for Air Canada as the COVID-19 situation unfolds.

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Date

2025/07/06

Date Created

2020/04/17

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