



## Why Air Canada (TSX:AC) Stock Will Bounce Back

### Description

This time last year, **Air Canada** ([TSX:AC](#)) was one of the most promising growth stocks on the **TSX**. The company had stormed all the way back from a valuation of \$1 early in the 2010s to an all-time high of \$52.71. However, Air Canada and the rest of the airline industry has been hit with a crisis it could have never adequately prepared for.

Warren Buffett jumped in early on airliners when this crisis began. At the time, I'd suggested that investors should consider emulating his strategy. Buffett has since [sold a portion of this stake](#).

### Air Canada: How long will its slump last?

Shares of Air Canada have dropped 63% over the past three months as of close on April 21. Earlier this month, I'd suggested that investors should jump on the stock after it [slipped below the \\$15 mark](#). The stock has spiked 43% over the past month. However, investors should not expect this bout of turbulence to end anytime soon.

Unfortunately, it is nearly impossible to predict when this dark reality will subside. Some European countries like Germany, Austria, and Denmark have started to re-open in response to positive case numbers.

Canadian politicians, on the other hand, are committed to pursuing extreme caution. Experts and officials have also warned of a potential second wave of COVID-19 infections in the fall and winter months of this year and next.

On April 21, Air Canada announced the suspension of all United States-bound flights. The two governments recently extended their non-essential border closure for another 30 days. Air Canada admitted that it had reduced its schedule by "more than 90%" since the middle of March, which will have a devastating impact on its earnings in 2020.

The losses to Air Canada and other airliners are incalculable right now. Airliners faced a years-long pullback after the September 11, 2001 attacks. Travel volumes took roughly half a decade to normalize

by the latter half of the 2000s. The immediate impacts of the COVID-19 pandemic will be more severe, and there is no timeline on normalization.

## Two reasons to have faith in airliners

The situation looks grim for Air Canada and the rest of the airline industry, but there is reason for some optimism going forward. In the years following September 11, 2001, travellers were fearful even with new security measures in place. Experts estimate that a COVID-19 vaccine will emerge in the next 12-18 months.

This means that there will eventually be a concrete resolution to this crisis. It also means that a path to normalization for the airline industry may be quicker compared to the 2000s.

A price war between oil producing countries and cratering demand due to the COVID-19 pandemic has pulverized the oil and gas industry. The price of West Texas Intermediate crude fell into negative territory to start this week. Jet fuel prices have predictably taken a huge hit as well.

This will provide some measure of relief for Air Canada and other airliners. However, manufacturers like **Boeing** and **Airbus** may see orders decline for newer fuel-efficient models.

## Should you buy Air Canada stock today?

Air Canada stock last had a favourable price-to-earnings ratio of 3.2 and a low price-to-book value of 1.0. Investors can expect to see its first quarter results on May 4. A slew of rough earnings will be released in the weeks ahead for Canada's top companies.

Air Canada has an improved balance sheet from when it was facing crisis in the early 2010s. Value investors should consider jumping on its dips going forward.

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