Will Air Canada (TSX:AC) Stock Rise Above $30 by the End of 2020?

Description

Shares of Canada's airline giant **Air Canada** (TSX:AC) have been volatile, to say the least. The stock was trading at a record high of $52.71 at the start of this year. Soon after, the COVID-19 pandemic erupted, completely decimating companies in the travel and tourism industry.

Air Canada stock then fell to a multi-year low of $9.26 in mid-March. The stock closed trading at $20.6 yesterday. Shares of the airline heavyweight were up close to 10% on April 28 on reports that major economies will re-open in the coming days.

In case this happens, airline companies will get a breather as international and domestic travel has come to a literal standstill. Shares of other air travel companies such as **Delta Air Lines** and **American Airlines** also gained 9.8% and 12.4%, respectively, yesterday.

Several countries have shut borders due to COVID-19, which drove the sell-off in Air Canada and peers. Now as lockdown rules come to an end in the next month, is it time to get bullish on Air Canada?

Air Canada's earnings will be impacted in the near term

Air Canada announced a slew of cost-cutting measures earlier this month. The company first announced a temporary layoff for about 16,000 employees. However, soon after, Air Canada stated that it would re-hire them and apply for the Canada Revenue Agency's CEWS program. The airline deferred capital-expenditure programs for 2020 and delayed international flights until the end of May.

The upcoming results will not matter much, as air traffic has dropped around 90% in the last month. Investors expect a massive decline in sales for the first half of 2020. But they are interested to know if the company has strong fundamentals and can come out of the current downturn unscathed.

Air Canada has increased cargo flights to transport essentials, including healthcare products. This may help the airline offset a part of the revenue decline, but it's not enough to compensate for the drop in passengers.

Is debt a concern?

Air Canada ended 2019 with a debt of $9.24 billion. It has a cash balance of $5.9 billion, which is enough to service interest payments. In order to improve short-term liquidity, the company might even draw operating lines of credit amounting to $1 billion.

This should give the company enough runway to tide it over the next few months. It has also targeted cost savings of $500 million this year.

Is Air Canada stock a buy?

Investors expect the COVID-19 pandemic to be a near-term headwind. If economic activity normalizes in the second half of 2020, several industries will get a boost. The stock market has already made a comeback in the last month, despite unprecedented unemployment rates.

Just prior to global shutdowns, Air Canada posted a record quarter in Q4. It is one of the most well-poised airline companies in the world. It was one of the top-performing stocks in the last decade and gained a staggering 5,600% between February 2009 and January 2020.

On the flip side, it might take longer than estimated for airline stocks to resume operations at optimum capacity. Travellers need to ensure that boarding flights does not cause any health hazards. Historically, the travel industry has been one of the slowest to recover in an economic recession.

But for long-term investors, Air Canada remains a perfect contrarian buy. It continues to trade 60% below record highs and is a company with a strong balance sheet.

CATEGORY

1. Coronavirus
2. Investing

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

Date
2025/07/01
Date Created
2020/04/29
Author
araghunath