



Air Canada (TSX:AC): A Bargain to Buy and Hold Forever

Description

Air Canada ([TSX:AC](#)) stock soared 5.1% on Wednesday, while [many of its peers in the U.S. took off over 10%](#) on optimism that the economy can heal from the [brutal coronavirus-induced meltdown](#). And just like that, shares of Air Canada are up more than 20% on the week.

Is the recent bounce in Air Canada and its peers to be trusted?

It's hard not to get excited over the upward move, but the fact remains that the airlines are nowhere close to being out of the woods quite yet, as nobody knows how many more waves of coronavirus we'll be in for. That said, the airlines are still a country mile away from their pre-pandemic highs, so there may be more days like Wednesday to come.

As such, value-conscious investors should consider scaling into a position in Air Canada while it's down 56% from the top. Sure, you missed a big upside move, but shares have only recovered around a quarter of the ground lost on the coronavirus crash.

While it may be more tempting to wait for a return to Air Canada stock's March lows, there are reasons to believe that the recent rally is sustainable. And for young investors, the risk of missing out on an incredible entry point may arguably be higher than the risk of near-term losses should we be in for a momentum reversal.

There's no question that Air Canada traders may be getting a bit ahead of themselves after the recent run off the bottom. But there's no denying the long-term value proposition to be had at around \$21 and change.

Air Canada remains too cheap to ignore for extremely long-term thinkers

Volatility will continue to be excessive as the airlines look to pull the curtain on their quarterly earnings

numbers. However, I think it's more than worthwhile to look past the coronavirus crisis, as longer-term tailwinds are still very much intact.

While it could take three years (or more) for the air travel industry to recover, depressed jet fuel prices, the potential to unlock more operational efficiencies through automation, and rock-bottom borrowing costs bode well for the profitability of the airlines over the long term.

Air Canada has come a long way since the Financial Crisis, even though it doesn't seem like it after the stock's recent implosion. The economics of the airline business have improved drastically. I'm pretty sure that had this been a structural downturn (and not a lockdown-inducing pandemic), we wouldn't be talking about the possibility of bankruptcy or the potential for Air Canada stock to fall to \$0.

Air Canada's liquidity position has become a growing concern

Air Canada is under financial pressure, but its liquidity position is actually better than most make it out to be. After recent cuts and furloughs, among other cash-saving initiatives, I see Air Canada as a coronavirus survivor that will live to see better days. Had it not been for the firm's share-repurchase program, Air Canada may have actually had enough liquidity to navigate this crisis all on its own.

In any case, I suspect the days of big buybacks and bailouts are all but over for the airlines. Heck, they may be pressured (potentially by the government) to better capitalize themselves (like an insurer or a bank) when times are good, so they're ready for the next inevitable crisis.

"[Air Canada is] going to be even more liquid come the next economic downturn." I said in a prior piece. "I believe this is a lesson learned for the airlines and that excessive share repurchases will be replaced with 'rainy day funds' akin to the float of an insurance business given the fickle, economically sensitive nature of the airline business."

Foolish takeaway

The airlines will always be cyclical in nature, but they're becoming less cyclical and more investable over time, as the underlying economics of the industry continues improving.

Who knows? We may one day reach a point where single P/E ratios of the airlines are not to be seen as a value trap! For now, Air Canada is trading near crisis-level lows and ought to be scooped and held for decades by those who wish to grow their wealth at an above-average rate.

Stay hungry. Stay Foolish.

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