Market Rally: Time to Buy Air Canada (TSX:AC) Stock

Description

Air Canada (TSX:AC) used to be a millionaire-maker stock. In 2012, shares were priced at $0.80. By the end of 2019, they surpassed $50. Yet the coronavirus crash has pulled the stock back below the $20 market. As the recent market rally heats up, this could be your best chance to capitalize.

The opportunity is clear. The same factor that made Air Canada a millionaire-maker stock last decade is about to get *even stronger* thanks to the coronavirus pandemic.

You'll need to remain patient, but if you want to bet on the market rally, choose Air Canada.

Air Canada will survive

Here's the most important thing to know: Air Canada will survive the current crisis. That may not sound like the most bullish stance, but it actually is, even if we weren't in the middle of a market rally.

For decades, operating an airline was a surefire way to lose money. Warren Buffett famously hated on the entire industry. "If a farsighted capitalist had been present at Kitty Hawk, he would have done his successors a huge favour by shooting Orville down," he famously quipped.

But times change. By 2017, Buffett had become one of the largest shareholders in *four* different airlines, including **Delta Air Lines**, **United Airlines**, **American Airlines**, and **Southwest Airlines**. What exactly changed? It's the same factor that makes Air Canada's survival so compelling: industry consolidation.

Running an airline was unprofitable for so many years because of industry oversupply. There was simply too much competition. Post-9/11, however, the industry got serious about its own survival. Capacity was reduced and competition became more rational. Finally, profits emerged.

As we'll see, the same dynamic should allow a rapid airline market rally for businesses that can outlast the coronavirus pandemic.

The market rally isn’t fair

Thus far, the market rally hasn’t been kind to airline stocks. Air Canada shares remain close to their pandemic lows. If you’re patient, this could be a great time to invest.

Post-coronavirus, we could see even more *consolidation*. If we’ve learned anything from history, it’s that even more *profits* will result, but only to the survivors.

With billions in cash, providing it with a runway through the rest of 2020, Air Canada should have no problem outlasting the current crisis, especially if it taps into government bailout funds in the form of new equity of low-interest debt. In 2021 and beyond, it could capture additional market share from its financially defunct competition.

Like the U.S., Canada’s airline sector has experienced rapid consolidation. Today, Air Canada has a 46% domestic market share, with WestJet controlling an additional 34%. The next largest competitor only has a 5% market share. The next largest after that controls just 2%.

Dominated by small and fragmented players, the 20% of Canada’s domestic market that Air Canada and WestJet don’t control should be up for grabs. That means post-pandemic, Air Canada could instantly become one-fifth larger, assuming it splits the gains with WestJet. With more capital to play with, it’s possible that Air Canada grows even quicker than that.

Who knows what will happen to airline stocks in 2020? The market rally in recent weeks hasn’t rewarded the space at all. If you’re willing to take a long-term view and bet that additional consolidation will result in higher profits for incumbents, Air Canada stock looks like a clear buy.

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rvanzo