



Forget Air Canada (TSX:AC) and This TSX Stock, Too

Description

It's starting to become more apparent how the economy will look when it opens back up. We are still a long way from opening at full capacity and with no restrictions. So, there are specific industries, such as airlines, you are going to want to avoid until the economy can completely go back to normal. **Air Canada** ([TSX:AC](#)) is a perfect example.

The stock has had a massive fall this year, and that's gotten a lot of attention from investors. The problem is that it seems Air Canada will be operating with reduced capacity for quite some time to come.

Warren Buffett talked about airline stocks in his annual shareholder meeting this past weekend. His company **Berkshire Hathaway** completely [sold all airline stocks](#) last quarter.

When asked why he left the sector and sold the stocks, Buffett alluded to a changing industry that could take years to get back to 2019 capacity levels.

And with airlines having such high fixed costs, it looks as though this could be a significant drag on profitability until we return to 2019 levels of capacity.

Air Canada stock

Airlines will suffer for two main reasons in the short term. First of all, in my view, many travelers will be careful about non-essential air travel, where it's nearly impossible to social distance.

Until the threat of contracting the virus declines, this will be a significant determining factor in how much capacity airlines see.

Secondly, I don't see international travel returning for quite some time. Each country has its own issues to deal with to get the coronavirus under control. While this is the case I can't see any country rushing to open their borders back up.

These two factors will weigh on the company and can have a considerable impact on Air Canada. Without any clarity, it's a stock I'd definitely [avoid today](#).

It's worth noting that Air Canada is expecting the capacity to decline by 85-90% in the second quarter and 75% in the third quarter. Management also noted it expects to take at least three years to recover to full capacity.

Currently, Air Canada does have sufficient liquidity to at least get itself through 2020. However, if things progress worse than management is currently expecting, I think there could be trouble ahead for the airline stock.

TSX stock to avoid with Air Canada

Initially, I'd thought some of the casino stocks had been top deals, but as I've started to understand the effects of the coronavirus, I believe casino stocks may be one of the most affected in the short run. For that reason, I'd be avoiding a stock like **Gamehost** ([TSX:GH](#)).

During a regular recession, casinos are somewhat defensive. However, with the coronavirus, I think casinos could be a hub for the virus, and health officials will recognize this.

Casinos are one of the worst places for the coronavirus to spread, because there are so many people coming and going and touching all the same machines.

Even if you enforce strict social distancing, with many users playing on the same machines over and over again, it's an easy way for the virus to spread quickly.

Furthermore, even if casinos are allowed to re-open, Gamehost is located strictly in Alberta. The Albertan economy is one of the worst-hit, if not *the* worst-hit, provinces in Canada. There are tremendous headwinds ahead for Gamehost comparable to those of Air Canada.

The company has had a rough stretch since the last oil crisis in 2015 and 2016. Unfortunately, it doesn't look like things are going to get better anytime soon.

Bottom line

These stocks may become high-quality opportunities in the future, but there are far better places to put your capital.

And with all the risk, avoiding stocks like Air Canada and Gamehost can save investors from making a major mistake. Instead, you can take that money and use it to buy high-quality stocks that are attractive now.

CATEGORY

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