Air Canada (TSX:AC): A Buy as Revenues Nosedive?

Description

Air Canada (TSX:AC) is under pressure again, and it's that much harder to be bullish now that Warren Buffett has thrown in the towel on his losing U.S. airline bets. With commercial airline revenues falling off a cliff towards zero, the survival of the essential airlines is no longer a guarantee with the sky-high operating costs that may prove to be too much for the airlines to handle on their own.

For many airline investors, this is just another crisis with a potential bailout waiting on the other end of the downturn. Like the aftermath of the Financial Crisis, Air Canada is shaping up to be an all-or-nothing bet that could make or break investors willing to go against the grain at this critical juncture.

While the next cyclical upswing is likely to lead to multi-bagger gains, there's no telling just how long investors will need to hang on or how much near- to medium-term pain one will have to deal with before Air Canada and its peers can leave the runway.

Air Canada: The good

In a prior piece, I'd highlighted the fact that Air Canada was in far better financial shape than its peers south of the border that blew billions on untimely share repurchases.

Air Canada was also guilty of buying back its shares over the past few years, but it didn't go "nuts" with the buyback program. As a result, Air Canada looks to be the best-equipped airline to survive the coronavirus crisis on its own, making it the number one airline stock to bet on if you're keen on getting into the industry after its collapse.

Air Canada raised $1 billion in debt in March and $1.6 billion in April while cutting capacity and doing everything in its power to conserve cash amid this liquidity crunch. The Canadian airline may have a pretty decent balance sheet on a relative basis, but that's still not saying much, as Air Canada looks akin to the best player on a sports team that stinks.

Air Canada: The bad

Air Canada clocked had a rough quarter as the coronavirus (COVID-19) crippled air traffic across the globe. Revenue for Q1 fell 16.1%, and it's likely headed much lower for Q2. Meanwhile, the company clocked in a worse-than-expected EPS loss of $1.49 versus the street consensus of a $1.22 loss.

Management noted that it could reduce its capacity by as much as 90% in the second quarter, so investors should brace themselves for even some hideous numbers that are looming. Fortunately, with AC stock down 70%, many investors likely already expected Q2 to be a "lost quarter."

Air Canada: The ugly

There's no telling if Q2 is going to be the worst quarter of if Q4 will be just as bad if not worse, depending on what happens with the insidious coronavirus. Many pundits expect a latter year resurgence, and depending on the severity of the next outbreak, Air Canada may be in for many more Q2-like quarters over the next year and beyond, as long as the insidious coronavirus is still lingering out there.

Foolish takeaway

Like it or not, Air Canada remains a trade on the coronavirus, even with its stellar liquidity position. It could make you big money, or you could lose your shirt depending on variables that you should not attempt to predict.

If you're a young investor with disposable income and at least a 10-year investment horizon, I'd look to scale into a position following the brutal first quarter. If you're an older investor who's a stranger to volatility, I'd follow Warren Buffett and look elsewhere, as the risks associated with the airlines couldn't be greater.

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