



Air Canada (TSX:AC) Stock: \$0 or \$100?

Description

The COVID-19 pandemic is causing destruction and mayhem for economies throughout the world. Among the worst-hit sectors, due to the pandemic is the hospitality industry and airlines. Canada's premier airline, **Air Canada** ([TSX:AC](#)), has been in the line of sight for plenty of discussion investors, and analysts are having amid the pandemic lockdown.

With commercial flights all but completely shut down, Air Canada is on the verge of bankruptcy unless the federal government decides to bail it out. With the company on flight lockdown and no end to travel restrictions expected in the near future, things are not looking good for the stock.

There is virtually zero demand for travel due to the pandemic. Air Canada's operations currently are limited to essential cargo transport to keep supply chains moving. It has retrofitted three of its passenger planes to ferry cargo so that it can have a higher volume of operations.

Air cargo, however, does not drive the growth and chunk of revenue for Air Canada. Unless the travel bans end and service resumes as usual the company might be at risk of watching its wings clipped off within this year.

The world has and will change further

The last time Air Canada faced bankruptcy, it managed to make a strong comeback to reach greater heights. The situation is much different now, and there is no telling whether it can even come close to replicating its performance in the last 10 years. The world will be unlikely to return to normal as we knew it before the pandemic once the crisis subsides.

Market analysts anticipate that despite a lift in travel bans, airline operations might not return to normal for a long time. As revenue for airlines directly links to how many passengers they cater to, the outlook is eerie and unwelcoming for Air Canada and other airline operators around the world.

Widespread diseases are among the worst enemies for the aviation industry. The last time it happened was back in 2003 with the SARS outbreak. The virus was not as contagious as COVID-19, and social

distancing was not required to curb the spread. This outbreak is far worse than what we witnessed back then. It will likely have a lasting impact on the psyche of airline passengers.

Will it tank?

The stock is trading for \$16.53 per share as I write this. It is down by an enormous 68% from its share price at the start of 2020. We can't be sure when the lockdown will be lifted. Even after the travel ban ends, there's no telling when people will likely start travelling again. There is no possibility of Air Canada replicating its success in the last decade.

If Air Canada fails, it can have dire consequences for the economy. Other aviation companies in the country, along with the tourism sector, will suffer if AC goes under. The government will not let that happen. It has already stepped in with the Canada Emergency Wage Subsidy (CEWS) to help Air Canada keep its 36,000 employees on the payroll as the lockdown continues.

The government will need to step up its financial bailout plan for the company. If the government buys equity after bailing the airline out, it can help Air Canada stay afloat. A [federal bailout](#) like that can also significantly dilute individual share value.

Foolish takeaway

There might be some degree of [upside potential](#) in case a miracle happens, and Air Canada takes off. However, I would advise only the most risk-inclined investors even to consider increasing their position in the stock.

I would personally stay a country mile away from Air Canada. It's a risky gamble, and the odds are immensely out of Air Canada's favour.

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