



Is Air Canada (TSX:AC) Headed to \$20?

Description

The airline industry has gone through a lot recently. Even billionaire investor Warren Buffett admits that investing in the airline industry was a mistake, sending stocks like **Air Canada** ([TSX:AC](#)) plummeting. But while we know we will be able to fly again one day, it's unclear when the stocks themselves will recover.

It seemed lately there was some hope in the case for Air Canada. After falling to lows not seen since 2017, the stock started to show some life. In fact, it even reached about \$21 per share before falling back down to around \$16 per share, where it is as of writing. Yet that doesn't mean much if the stock is only going to sink lower. After all, it happened back in 2009 when it fell below \$1 per share. So, where is Air Canada headed?

Air Canada: First, the bad news

The airline industry is competitive, to say the least. Airlines fall to the wayside all the time. In fact, according to fellow Fool writer [Ryan Vanzo](#), during the last century, most airlines *haven't* survived. So, this leaves Air Canada in a stressful position. After all, during the last few years, the company has gone through a major restructuring.

Part of this restructuring, of course, involved reinvestment. The company purchased a fleet of new airplanes designed to be more fuel efficient. That's great over the long term, but during the short term, this means one thing: debt. The company would have to pay an arm and a leg and likely another arm to pay off this new fleet over the next few years. The current pandemic really could not have come at a worse time.

This became clear during the company's most recent earnings report. Air Canada missed earnings estimates made by analysts, with a whopping loss of \$1.05 billion. This is an incredible loss when you compare it to the \$345 million in profits made during the same quarter last year. In response, the company announced it would be retiring 79 of its older aircraft and cutting capacity to 90%. Clearly, these losses will continue to be felt in the next few quarters, if not the next few years.

Air Canada: The good news

While it's true that there are going to be airlines that won't survive, it's likely that Air Canada won't be one of them. The company's reinvestment means there is a strong long-term outlook for Canada's top airline. Within the country, the company really doesn't have much competition. In fact, the competition it had from low-cost airlines might be gone if these airlines close during the pandemic.

The company also has money coming in from [the government](#). As of last quarter, Air Canada has \$6 billion in cash and investments to help stop the bleeding during the pandemic. On top of that could come to government aid to help the company avoid bankruptcy as it continues to lose cash. That's not ideal but not the end of the company either.

Finally, as I mentioned at the beginning, this pandemic will end eventually. That means when it does, Air Canada will likely see a huge surge in flights. That will see a huge surge in its stock price. So, even if the stock remains around where it is now, any good news could send the stock past \$20. Once flights are confirmed again, that price could soar to pre-crash heights in the \$50 range.

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