



## Will Air Canada (TSX:AC) Stock Triple in 2020?

### Description

**Air Canada** ([TSX:AC](#)) stock was once on fire. In 2012, the stock was worth only \$1 apiece. Last year, shares surpassed the \$50 mark.

The [coronavirus](#) pandemic has *significantly* impacted the company's recent valuation. Today, shares trade hands at \$14, a 75% discount to its all-time highs. The market cap has shrunk to just \$3.7 billion.

But all is not lost. Air Canada remains the largest player in the Canadian airline industry. Its balance sheet also leads the industry, making it likely to survive the downturn. Better yet, the bear market could ultimately *benefit* the business long term.

If you're willing to take some risk, Air Canada could be the top-performing [investment](#) in 2020.

### Understand the opportunity

It doesn't take a genius to understand why Air Canada stock has struggled. Air traffic has fallen off a cliff. Since March, the departures from airports around the world have fallen by more than 60%. That's according to an *LA Times* analysis of millions of aircraft radar records.

The pain is being felt everywhere, including Canada. Air Canada, in particular, has shut down its most profitable routes. Even its remaining flight schedule is running below historical capacity standards.

Last week, we received the first data points regarding Air Canada's condition in the form of first-quarter results.

EBITDA, a proxy for cash flow, fell to \$71 million from \$583 million in the first quarter of 2019. Operating losses totaled \$433 million compared to an operating *income* of \$127 million the year prior. Finally, revenue fell by roughly 20%, the first time in 27 consecutive quarters that the firm didn't report year-over-year growth.

Notice the disparity there. Sales fell by 20%, yet profits were annihilated. Note that Air Canada has

reduced its booking capacity by 85% for the quarter ahead, so the pain has just begun.

“It is our current expectation that it will take at least three years to recover to 2019 levels of revenue and capacity,” management said last week. “We expect that both the overall industry and our airline will be considerably smaller for some time.”

## Air Canada will survive

Here’s the good news: Air Canada will survive. Unrestricted liquidity this quarter totaled \$6.5 billion compared to liquidity of \$7.4 billion at the start of 2019. With billions in cash plus access to credit lines, the company won’t have an issue surviving the year to come. The same cannot be said of the competition.

Last year, Air Canada controlled 45% of the Canadian air market. WestJet commanded another 35%. That leaves 20% of the market to small, fragmented players. We should see a mass exodus from these lesser-financed players.

In 2021, Air Canada could experience an unprecedented opportunity to expand its market share. Much of its competition will no longer exist, and new entrants will be few.

If we’ve learned anything about the industry’s history, it’s that consolidation brings profits. Warren Buffett famously refused to invest in U.S. airlines until the market dwindled to just four major players. Canada today has just two major players.

Air Canada’s ability to profit could expand greatly in the years to come. However, patience will be needed. If air traffic starts to normalize towards the end of 2020, a stock price triple is not out of the question. But as Air Canada’s management indicates, don’t expect a return to normal for several years.

Even so, Air Canada could still grow in size by commanding a larger portion of a smaller market. Predicting the company’s share price in 2020 is close to impossible. But for long-term investors, this could be a great way to bet on industry consolidation.

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