
Could Air Canada (TSX:AC) Go Belly Up in 2020?

### Description

**Air Canada** (TSX:AC) is in a tough spot again following mounting fears that the airlines could be on the brink of bankruptcy. Newly appointed **Boeing** CEO David Calhoun believes that a major U.S. airline is "most likely" to go bankrupt this year. That's a dire prediction, and to think it's coming from a man at the helm of a company that depends on the success of the air travel industry.



Contrarian investors looking to the airline sector for value ought to proceed very cautiously, as the airlines are starting to look like an "all-or-nothing" gamble that a vaccine will be developed before a given airline's cash reserves run dry.

The coronavirus has left a permanent scar on the face of the air travel industry, and many investors are indeed aware that it could take more than three years for air travel to recover to pre-pandemic levels. But with the risk that the pandemic could spill over into 2021 and beyond, the survival of the airlines is no longer a guarantee.

## Why Air Canada is the best bet for airline investors

In the U.S., there are four major commercial airlines. Any one (or two) of them could go under, and the U.S. would still have a dominant presence in the skies. Here in Canada, there's essentially a duopoly in the air travel industry. It's just Air Canada and WestJet, the former of which the federal government can't afford not to bail out should a worst-case scenario end up panning out.

The number of passengers carried could take years, if not decades, to return to pre-pandemic levels. But if Air Canada were to go under, even the dampened post-pandemic demand is unlikely to be met with just WestJet alone. As such, Air Canada is too vital to the Canadian economy to go under, unlike its peers south of the border, only one of which could afford to drop without causing an irreparable supply-demand imbalance.

Moreover, Air Canada is in far better financial shape than its U.S. peers, with its superior liquidity position, which should be enough to make it through year-end. That takes Air Canada out of the race for potential airlines that could go bankrupt by the conclusion of 2020.

But just because Air Canada is the least likely North American airline to go bankrupt doesn't mean you can't lose your shirt by investing in shares at these depths. Substantial dilution in the event of a government bailout and a further implosion in the stock price, like what happened before the 2007-08 Financial Crisis, should not be ruled out if worse comes to worst.

Is having one of your holdings losing over 95% of its value really that much better than losing your entire investment?

## Foolish takeaway

As it stands, shares of Air Canada, like any other airline stock, is an "all-or-nothing" bet that an effective vaccine will be developed within a year or so.

If you're a younger investor that has disposable income to speculate with, Air Canada stock looks like a worthy horse to bet on. But if you're an older, long-term investor who can't stomach a double-digit percentage loss, you'd be best advised to stay away from the name and the industry, despite the multi-bagger upside potential should a COVID-19 vaccine land from out of the blue.



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