



Air Canada (TSX:AC) Stock: Should You Bail or Buy the Dip?

Description

When the market swung violently southward in March, investors were scrambling for where to turn. Warren Buffett is often seen as a guide for investors during troubled times. However, in 2020 the violent moves of the market have confounded even the investing legend. Buffett made a bigger bet on top airliners when the COVID-19 outbreak began in North America. Earlier this month, Buffett revealed that he had [sold off large stakes](#) in these four airlines at a loss. This drove down these companies and **Air Canada** ([TSX:AC](#)), Canada's top airline.

A little over a year ago today, I'd discussed why it was [unwise to bet against Air Canada](#). The company was rolling off records, as the airline industry was surging on the back of record passenger traffic and low fuel costs. Shares of Air Canada have dropped 65% in 2020 as of close on May 21. Now, investors are faced with a very different environment for airlines.

Today, I want to discuss whether investors should avoid Air Canada or potentially buy the dip. Let's jump in.

Air Canada: Why you should bail

In March, it had become clear that the COVID-19 pandemic would have devastating consequences for the broader economy. The airline sector took hits immediately, as international travel plummeted. Analysts and economists drew comparisons to the difficult years that followed the September 11, 2001, terrorist attacks. In that instance, the airline industry took roughly half a decade to fully recover.

Earlier this month, the company said that it expected it would take three years to recover from the "darkest period ever" in commercial aviation. This was after the company revealed a stunning \$1.05 billion loss in its first quarter report. Air Canada also expects to downsize its headcount and fleet by 85-90% in the second quarter and 75% in the third quarter.

The company predicts that it will be "considerably smaller for some time." Investors should expect turbulence at Air Canada for years to come.

Why you should buy low?

For all its struggles, Air Canada is the most well-equipped Canadian airline to weather this crisis. The company learned harsh lessons in the previous financial crisis. In the early 2010s, Air Canada stock plunged below the \$1 mark. Since then, Air Canada's management has worked to greatly bolster its balance sheet. At March 31, 2020, Air Canada reported unrestricted liquidity of \$6.12 billion. This was up from \$5.87 billion in the prior year.

Airliners are going through an extremely difficult period, but there will be huge opportunities for growth, as lockdown measures ease. This may be a historic opportunity to grab Air Canada at a discount. The stock is trading close to its 52-week low at the time of this writing. Moreover, shares still boast a favourable price-to-book value of one.

Verdict

As usual, the play here is dependent upon the outlook for the investor. Those with a shorter time horizon should look for alternatives as Air Canada will almost certainly suffer from more volatility in the near term. But investors operating on a longer timeline should consider adding this stock at a discount.

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