



## Air Canada (TSX:AC): When Will the Stock Fall Below \$10?

### Description

Many economies are starting to open up, believing that the worst of the pandemic is behind them. However, economists and analysts believe that the global lockdown's full economic repercussions are yet to come, and it will take countries months or even years to get things back to normal — and many more years to get past the long-term effects of the pandemic.

As the world starts to limp towards some resemblance of normality, the airline business continues to suffer. Thailand's flagship carrier is filing for bankruptcy, becoming the first major national airline to do so. But the way things are moving, it most likely won't be the last.

### Canada's flagship carrier

So what's in store for **Air Canada** ([TSX:AC](#))? The stock price has declined over 32% since April. Currently, it's trading at just \$14.6 per share. If it continues at the same pace of decline, the stock might hit the single-digit mark within two weeks.

For investors who are still going for Air Canada's low valuation, they might find the \$10 or lower per-share price very enticing.

From a value investment perspective, it might seem smart to invest in a company that's trading at a mere fraction of its prime stock price. But as valuation goes down, the risk continues to rise.

### Massive layoffs

Air Canada shocked the nation, and especially the airline sector, when it announced its plans to lay off about half the workforce, which at its worst can affect about 22,800 of its 38,000 employees. While the decision aligns with the air travel industry's current situation and the company's massive operational capacity cuts, it will add to the country's worsening unemployment numbers.

Another reason why this news is a bit shocking is that the federal government provided a wage

subsidy. As per the program, the federal government took care of 75% of the employees' wages that Air Canada was planning to lay off in March. Does that mean Air Canada is unable even to cover the remaining 25% of the wages for their employees?

The government is still not indicating a bailout, and the announcement to lay off half the staff might be Air Canada's plea for a more substantial lifeline from the government. In either case, I see it as Air Canada's commitment to survival.

The flagship carrier has taken and probably will take [many difficult decisions](#) to avoid repeating its bankruptcy nightmare.

## Foolish takeaway

While the future of air travel and passenger perception is still hard to predict, Air Canada might weather the "low-demand" storm. But we can't justifiably weight Air Canada's lowering chances of bankruptcy against rising chances of a second wave of the pandemic, because the latter might be even more brutal than the first wave.

If that happens, no matter how resilient the company, it might not be able to survive another almost zero operational activity phase, without [government intervention](#).

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