



\$10,000 Invested in Air Canada (TSX:AC) 1 Year Ago Is Worth This Much Today

Description

This year has not been kind to investor capital across the board. Among the hardest-hit sectors, however, are the hospitality and the airline industries. Airlines are facing monumental losses for 2020. The prospect of owning airline company shares is riddled with risk and despair.

Due to the COVID-19 pandemic, **Air Canada** ([TSX:AC](#)) is one of the worst-hit stocks on the **TSX**. At writing, the stock is trading for just below \$17 per share, down by 66% from its price at the start of 2020. While the broader TSX has begun to rally since April, AC continues to take a beating.

Several factors have affected the airline stock and added to the drama. [Warren Buffett sold his positions](#) in the airline sector, a disastrous first-quarter earnings report for AC, and the overall economic impact of the pandemic are painting a horrifying picture for the stock.

Contrarian play or bust?

According to its first-quarter 2020 report, AC is down \$1 billion. Despite its huge losses, Air Canada is not a worthless stock right now. Its debt to equity is high, and this factor was a problem for the airline stock long before the pandemic even began. The situation is quite worrisome but not as bad as it could have been.

In the last five years, Air Canada's balance sheet has improved. Before then, its shareholder equity was negative. Air Canada's debt level is also adequately covered through cash flows, with 37.4% coverage. Its earnings before interest, taxes, depreciation, and amortization is \$2.22 billion. Technically speaking, Air Canada has short-term assets that can exceed its short-term liabilities.

However, Air Canada has said that it expects it will take three full years to get back to pre-pandemic levels of revenue and capacity. While the pandemic might end as soon as vaccines are made and go into mass production, it does not mean people will start flying as much as they used to.

While it could take Air Canada three years to return to 2019 revenue levels, the stock could also dip further.

The effect on investor capital

If you had invested \$10,000 in the airline stock a decade ago, you might have seen a terrific period for your funds. Between mid-February 2010 and mid-January 2020, the Air Canada stock exhibited growth of more than 3,280%. That means \$10,000 would have been worth around \$328,000 at its mid-January 2020 peak.

At its current share price, however, the stock is up by around 859% from its share price a decade ago. That would put an investment of \$10,000 in May 2010 in AC at around \$859,000. Despite its bleak near-term outlook, the stock has still managed to keep investor capital invested in it 10 years ago positive.

Foolish takeaway

With executives from the airline [forecasting three years of pain](#), the long-term impact could be severe for Air Canada. Unless you believe that there is support coming in the form of a government bailout, it might be time to bail out of the stock. I think the stock is too risky to invest in at the moment.

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Date

2025/09/15

Date Created

2020/05/25

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