



Air Canada (TSX:AC): Are the Sky-High Rewards Worth the Risk?

Description

Air Canada ([TSX:AC](#)) and the broader airline industry are navigating through arguably the worst environment they've ever been in. While Air Canada may be a far more resilient company than it was prior to the 2007-08 Financial Crisis, it sure doesn't feel like it given that the airlines are at ground zero of this [coronavirus crisis](#).

Airline stocks: A speculative bet that may be worth making

If the cause of this recession was anything other than a pandemic, I'm sure Air Canada would have pulled through on its own. The business of the airlines is now far more economical this time around, and Air Canada has done an exceptional job of improving upon its company-specific fundamentals.

Unfortunately, none of this progress matters in the coronavirus era. Government-mandated travel restrictions put the airlines at the mercy of exogenous events, and for investors like Warren Buffett, the uncertainties that accompany an airline investment are far too high.

Heck, you could argue that the coronavirus-related uncertainties have turned the airlines from a sound, profitable investment into a complete speculation.

For long-term investors seeking to nab stocks at discounts to their intrinsic value, the airlines are becoming unworthy bets, as it's virtually impossible to gauge their intrinsic value with the headwinds that lie ahead. The true value of the airlines ultimately depends on what's going to happen next with this horrific pandemic and the vaccine timeline.

So, how does one justify an investment in Air Canada?

Acknowledge the uncertainties the fact that you'll be speculating and not investing in what's shaping up to be an all-or-nothing type of bet. Until a working vaccine is created, it's highly unlikely that the passenger volumes will make an abrupt return to pre-pandemic levels, even if travel restrictions are lifted as the risk of contracting COVID-19 is reduced.

Boeing CEO David Calhoun noted that he sees it taking two or three years for air travel to recover and that the odds of a U.S. airline going under in 2020 are quite high. If a COVID-19 vaccine takes far longer than anyone on the Street is expecting, though, the road to recovery for the airline industry could be even longer.

Who knows? It could take the airlines a full decade to turn to their 2019 heights if a worst-case scenario ends up unfolding, and the pandemic lasts as long, if not longer, than the 1918 Spanish Flu pandemic. In such a scenario, investors could stand to lose a majority of their investment with a bet on Air Canada, even though shares have already been cut in half twice.

Foolish takeaway on the risk/reward involved with Air Canada

For the airlines that do survive this coronavirus typhoon, the returns could be astronomical for shareholders willing to hang in there.

If you're a young investor who's okay with an "all-or-nothing" type bet, Air Canada, I believe, is a speculation well worth taking. It stands out as the best bet in the space thanks to its favourable liquidity position, which makes it among the best positioned to survive this crisis, as cash reserves look to dry up.

It's worth noting, however, that such a superior relative degree of financial flexibility can only go so far. As such, investors shouldn't seek to bet the farm and should look to scale into a position in Air Canada stock only with disposable income they're willing to lose.

"Air Canada raised \$1 billion in debt in March and \$1.6 billion in April while cutting capacity and doing everything in its power to conserve cash amid this liquidity crunch." I wrote in a [prior piece](#). "The Canadian airline may have a pretty decent balance sheet on a relative basis, but that's still not saying much, as Air Canada looks akin to the best player on a sports team that stinks."

CATEGORY

1. Coronavirus
2. Investing
3. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Stocks for Beginners

Tags

1. Editor's Choice

Date

2025/08/20

Date Created

2020/05/25

Author

joefrenette

default watermark

default watermark