Air Canada (TSX:AC) Stock: Should You Buy if it Hits $10/Share?

Description

Would it be too much of a gamble to bet on **Air Canada** (TSX:AC) today? Its capacity has gone down by 95%, and the airline stock is losing by 65% year to date. If the share price were to drop to $10, should investors consider taking a position?

Buy low and sell high is a rule of thumb in the stock market. This maxim, however, might not apply to Air Canada, given the grim outlook of the air travel business. The risk is too high, even if the stock trades at a bargain price.

Fear is prevailing in the present market environment. The aviation industry in particular is the hardest hit by the COVID-19 pandemic. Big and small carriers are suffering from the travel meltdown. Air Canada is one of the world's largest airlines and is bleeding dry. Bankruptcy is a strong possibility in 2020.

Drastic measures

Air travel's plummeting demand is the primary reason why Canada's flag carrier is implementing drastic measures. About 20,000 employees, representing roughly 60% of the total workforce, will be out of work by the first week of June 2020.

Labour unions are upset by the mass layoffs, but Air Canada must act to prevent or delay insolvency. The federal government hasn't made a direct assistance offer. So far, the available remedies are the Canada Emergency Wage Subsidy (CEWS) and the Large Employer Emergency Financing Facility (LEEFF).

Instead of continuing with the CEWS, Air Canada will stop the 75% wage subsidy to employees. The company is offering unpaid leaves, fewer work hours, or resignations to its employees. There's no confirmation whether management will avail of LEEFF, which is an interest-bearing term loan.

CEWS will help Air Canada keep employees or rehire laid-off workers. LEEFF is a bridge financing facility for large corporations. This short-term liquidity assistance aims for companies like Air Canada to continue operations and investing activities. It can also preserve employment.

Facts to consider

Air Canada regrets the drastic measures, including the discontinuance of CEWS. The action closes the door to the COVID-19 government aid to displaced workers. But there are other facts to consider if you want further justification. Its CEO Calvin Rovinescu admits zero prospects of recovery in the near- and mid-term future.

The aviation industry is facing its biggest crisis. Airline networks are likely to shrink in the aftermath of the pandemic. Returning to the 2019 levels by 2023 is an optimistic projection. Travel demand will remain low, unless the threat of coronavirus is wholly gone.

No money growth

The stock price of Air Canada could still bottom and hit $10 per share. It might be a good entry point, but only if it follows the nature of market cycles. However, the chances of this airline stock developing an uptrend are slim.

According to the International Air Transport Association (IATA), domestic travel might resume in the third quarter of 2020. But for the air travel industry, in general, IATA believes the bounce back will take five years. Your money in Air Canada will not grow.

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cliew