Air Canada (TSX:AC) Stock: Next Stop $50 or $0?

Description

Air Canada (TSX:AC) stock looks like a dud amid the COVID-19 pandemic. Travel restrictions have crippled revenues, and with market chatter focused on the potential for a second outbreak later in the year, it seems as though the pessimism on airline stocks has gotten a bit out of hand.

Moreover, following Warren Buffett's exit from major U.S. airline stocks, it seems as though the airlines are a speculative gamble that could cause one to lose their shirt. While the airlines are undoubtedly at the mercy of the coronavirus, I think that many folks on Wall and Bay Street are severely discounting the upside potential in the event that an effective vaccine lands sooner rather than later.

Air Canada stock remains a bet on the arrival of a vaccine

Some of the quickest vaccines took around four years to produce. And if this pandemic drags on that long, there's no question that the airlines are in for a world of pain. In such a worst-case scenario, it could take more than a decade for passenger volumes to return to their 2019 pre-pandemic heights, and airline stocks could lose well over 90% of their value.

On the flip side, the airlines could skyrocket into the stratosphere, well before passenger volumes have a chance to recover should a coronavirus vaccine be ready for broad distribution by year-end. While it's impossible to predict when a vaccine will land, the stock charts of the airlines seem to suggest that a vaccine won't be available, potentially for years, and that bankruptcy is imminent.

While the airlines are on the path of going belly up, I think it's unwise to bet against a timely arrival of a vaccine given the vast number of firms that are leveraging next-generation technologies to accelerate the lengthy process. There's no guarantee a vaccine will land; however, I think that the pessimism with airline stocks is overblown beyond proportion. Heck, even **Boeing** CEO David Calhoun sounds pretty bearish on the airline industry outlook!

Just because Warren Buffett jumped ship on airline stocks

doesn’t mean you should ditch Air Canada stock

The airline stocks are going to be navigating through some pretty thick clouds over the coming months. Nobody knows what’s going to happen next, but if you’re of the belief that the mainstream thesis that “air travel will never be the same again” is flawed, it makes a tonne of sense to dollar-cost average into a position on Air Canada stock on the way down.

Air Canada stock looks like a worthy speculative bet for young investors who are ready and willing to take the risks for a shot at what could be huge rewards in the event of a sharp correction to the upside.

Of all the North American airline stocks, Air Canada looks most investable because of its solid liquidity position. It’s an advantage that I believe buys it more time relative to its less-liquid peers south of the border.

The managers at Air Canada have taken aggressive moves to preserve cash. They’re in survival mode, and with a considerable amount of liquidity at their disposal, Air Canada looks less like a bankruptcy waiting to happen, unlike its U.S. peers.

The problem with Air Canada stock relative to its peers

The problem with Air Canada relative to its peers is the fact that it’s more internationally focused, with just 30% of total passenger revenues being domestic. As long as the coronavirus is still out there, Air Canada will face amplified damage, as government-mandated international travel restrictions continue through the duration of this pandemic.

Foolish takeaway

While Air Canada does have a solid liquidity position, it’s also in a position to face nosediving revenues amid the pandemic. As such, only young investors willing to speculate should pick up shares today, because, like it or not, the occurrence of a binary exogenous event will dictate whether Air Canada stock will be headed to $50 or $0. Understand the risks and place your bets accordingly.

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