If You Invested $1,000 in Air Canada Stock in 2010, Here's How Much You Would Have Today

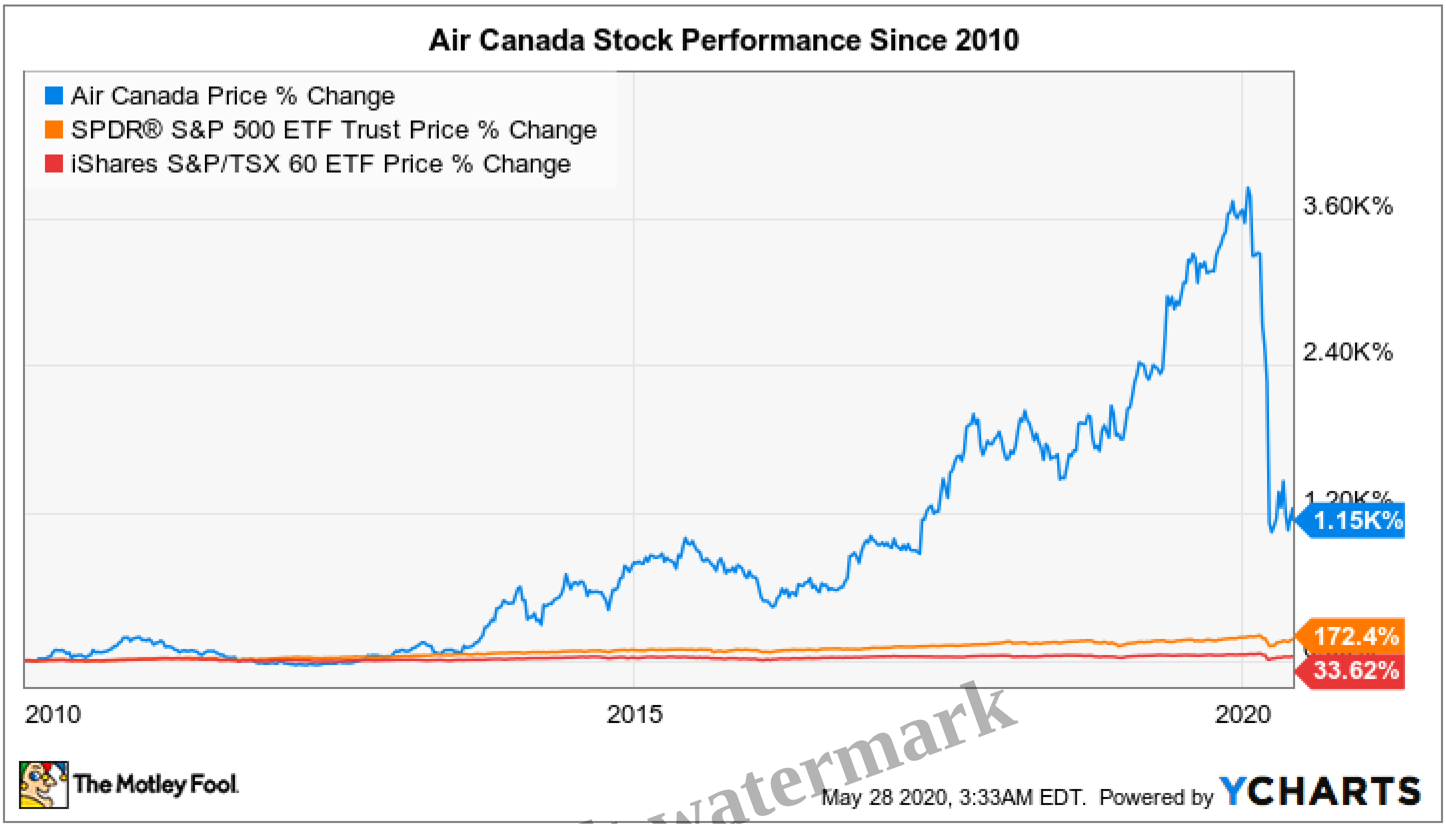
Description

Investing is a long-term play. In order to benefit from the power of compounding, you need to stay put for years. Companies such as **Apple**, **Amazon,** and **Netflix** have generated massive wealth for investors in the last decade. Up until January 2020, **Air Canada** (TSX:AC) was one such stock that increased investor wealth multi-fold.

Air Canada stock rose from $1.32 per share at the end of 2009 to a record high of $52.71 in January 2020. This indicates a massive return of 3,900%. So, in case you bought 758 Air Canada shares for $1000.56 at the start of 2010, the investment would have ballooned close to $40,000 at the start of this year.

However, the COVID-19 pandemic sent airline stock crashing. As international and domestic travel has come to a standstill, Air Canada stock touched a multi-year low of $9.26. It's currently trading at $16.44 per share, which indicates cumulative returns of 1,150% in just over a decade.

Despite a 69% fall from record highs, Air Canada has been one of the top-performing stocks on the **TSX** since 2010. But as we know, past returns don't matter much to prospective investors, who want to know if Canada's airline giant remains a good pick for the upcoming decade.



AC data by YCharts

Air Canada is part of a capital-intensive business

The dreaded virus has impacted several other industries, including REITs, retail, banks, and energy. However few sectors are as capital heavy as airlines. Air Canada is in fact burning $22 million per day despite a significant decline in sales. Analysts expect the pandemic to impact Air Canada sales by 82% in the June quarter. Total company sales might fall 50% to $10 billion in 2020.

Investment icon Warren Buffett exit the airline sector last month. **Berkshire Hathaway** dumped shares in the top four airlines south of the border, which could make Air Canada investors wary. Airplane manufacturer **Boeing** already warned that airline capacity will return to pre-COVID-19 levels by 2022.

In case several countries plunge into a recession, Air Canada stock will move lower. In an economic downturn, airline stocks are hit hard. People will delay discretionary spending as well as travel plans.

To counter the impact of a decline in travel capacity, Air Canada management has reduced its workforce by 60%. It has delayed capital expenditure and these measures will help the company save $1.05 billion in 2020.

The worst might be over for AC, especially if governments around the world are successful in containing the virus. It can also benefit from low oil prices, which should improve profitability.

The Foolish takeaway

AC is a heavyweight and is critical to Canada's airline sector. Despite cost-saving measures, however, the company can go bankrupt given its capital-intensive business and high debt levels.

However, it continues to focus on maintaining a strong balance sheet. The Canadian government is likely to bail-out Air Canada (if things take a turn for the worse) given its huge presence in domestic and international markets.

There are too many uncertainties surrounding Air Canada stock right now. However, with high risk comes high reward.

Analysts tracking the stock have a 12-month average target price of $31, indicating a 95% upside potential from the current trading price.

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