Air Canada (TSX:AC) Stock: Sell or Buy Now?

Description

I don't think any sector has taken a worse beating than the airline industry due to the COVID-19 pandemic. Before the global health crisis grounded almost all the flights in Canada, airlines were experiencing one of the best decades ever. **Air Canada** (TSX:AC) was the best example for the industry.

Since the lockdown, things have drastically changed for the high-flying stock.

Staggering decline

At writing, the Air Canada stock is down by almost 70% from its January 2020 high. While the overall **S&P/TSX Composite** seems to be recovering, Air Canada is not making any gains, which makes the situation worse for the airline that carries Canada's flag.

Until the pandemic struck, Air Canada was centres on growth. The airline was updating its massive fleet by adding new Boeing A220s and Dreamliners. It was outlining new seasonal and permanent routes for the summer season when people love going on vacations.

AC is instead flying a severely limited number of passengers now over a few of its old routes. Losses of more than $1 billion in its recent quarter did not come as a surprise. The aircraft that are not flying still require maintenance, increasing the overall expenses of the company. This situation will take years for AC to recover from.

That should explain the thesis on bailing on the airline stock.

Should you buy on the dip?

For all the struggles AC is going through, it is the most well-equipped airline in the country to weather such a crisis. The company took massive hits during the financial crisis of 2008. The result of the economic downturn was the AC stock dipping below the $1 mark on the TSX. Air Canada's management worked out a plan to bolster the airline's balance sheet since then.

Despite all its troubles, on March 31, 2020, Air Canada reported unrestricted liquidity of around $6.12 billion – up from $5.87 billion in 2019. While airline stocks across the world are going through a challenging time, there will be plenty of room for the companies to grow once air travel operations resume.

As lockdown measures begin to ease, AC and other airline stocks can present investors plenty of upside potential.

Foolish takeaway

At writing, AC is trading for $16.00 per share and is trading close to its 52-week low. The question is, should you buy the stock on the dip or avoid it like the plague?

If you consider results, Air Canada might not expect to see adequate revenue for the next three years. While businesses continue to slowly open, social distancing is a priority all around. These measures are nearly impossible to implement in an aircraft.

Once the entire situation subsides and normal airline operations resume, the AC stock can see massive recovery.

Investors with a short-term horizon would be better off looking at other avenues. Investors with a long-term horizon and disposable income could consider buying the Air Canada stock at a discount.

There is a significant risk that it might decline further, but it could present you with immense returns if it bounces back.

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