



My 5-Year Prediction for Air Canada (TSX:AC) and the Airline Industry

Description

The insidious coronavirus has decimated **Air Canada** ([TSX:AC](#)) and the airline industry. Many pundits state with confidence that the air travel industry will never be the same after the [COVID-19 pandemic](#).

While there will be obvious operational disruption over the near- and intermediate-term, I believe that air travel will eventually recover to pre-pandemic levels, and that dire long-term projections for the industry are overblown.

Immense pain ahead for Air Canada and airline stocks

There's no question that coronavirus-induced lockdowns will continue to wreak havoc on the top-line numbers of the airlines. Air Canada derives a majority of its revenues from non-domestic travel. This puts it among the most vulnerable firms if there is another wave of outbreaks, which could leave borders closed for an extended period.

If you believe that we will suffer another wave of lockdowns, then pain is likely just beginning for airline stocks.

If we don't see an effective vaccine in 2020, some of the less-liquid commercial airlines probably won't survive. And for investors in the surviving airlines, there will likely be massive paper losses before a sustained recovery can begin.

A long road to recovery for Air Canada and the airline industry

Boeing CEO David Calhoun thinks it could take two or three years for the air travel industry to recover. I think it could take as long as five years, depending on the severity of the coming recession. But in due time, I believe that passenger volumes will return to and exceed pre-pandemic levels. And Air Canada will be back, cramming as many passengers as it can into every aircraft.

That said, I don't think it's wise, even for long-term investors, to place a bet on an airline unless they're

willing to lose their entire principal. Even if the industry gradually recovers in three or five years, a handful of airlines are at high risk of going under, as their cash reserves run dry. The remaining airlines could be subject to lofty government bailouts that might dilute shareholders severely.

Warren Buffett understands the risks involved with the airline industry

Warren Buffett bailed on the airlines, admitting he was wrong about the industry. The uncertainties are too significant, and the road to recovery is looking quite long, even for someone with the patience of Buffett. Moreover, the risk/reward trade-off is unfavourable when you consider the range of possible outcomes with this pandemic.

Sure, you could score a multi-bagger with Air Canada stock if a vaccine lands sooner rather than later. But with limited visibility on the vaccine timeline, you'd be speculating on the 'all-or-nothing' airline bet, rather than investing.

Foolish takeaway

The airline industry will eventually recover. But that doesn't mean airline stocks will. If a worst-case scenario pans out with this pandemic, almost all airline bets made today could prove to be nothing more than a losing lottery ticket.

That said, not all airlines are built the same. Air Canada, which has a more favourable liquidity position than many of its U.S. peers, looks to have more time to wait for a vaccine. As such, the Canadian airline stock looks like a more [worthy](#) speculation for those willing to place such an all-or-nothing bet.

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