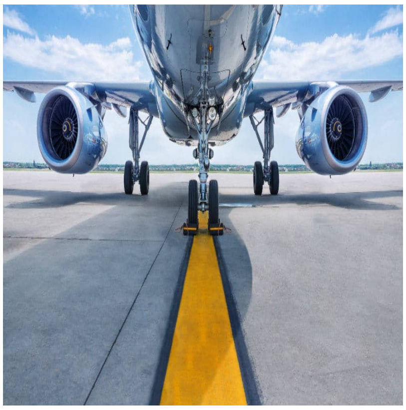

Air Canada (TSX:AC) Is a High-Upside Speculative Bet Worth Making

Description

Air Canada (TSX:AC) stock is not for the faint of heart. It's an all-or-nothing bet that doesn't make sense for a majority of risk-averse investors.

That said, for certain fearless youngsters, a shot at timely multi-bagger gains may be worth risking one's invested principal. Warren Buffett isn't willing to make such a high-risk/high-reward bet. But if you're a young investor like a millennial, a bet on an airline comeback may not be as reckless as it seems right now in the heat of the crisis.

Air Canada's liquidity strengthens further

Air Canada looks to be the best bet for those keen on investing in the battered airline stocks. Unlike some of its peers in the states, Air Canada has a stable liquidity position that will allow it more time to wait for a vaccine to arrive. The firm's liquidity position became that much better following new debt issuance, bringing pro-forma liquidity just shy of $10 billion.

After yet another cap raise, Air Canada looks to have more than enough cash to ride out this coronavirus typhoon. There are still massive uncertainties regarding the vaccine timeline and the possibility of a second outbreak. With the airline's liquidity position now around half of last year's revenues, however, Air Canada makes a strong case for why it could be one of the few airlines that could survive the crisis and come out on the other side roaring.

Management has done everything in their power to make it through the crisis. They've been battening down the hatches, with deep capacity cuts and moves to further bolster its liquidity position. Air Canada does have an alarming 2.5 debt-to-equity ratio and $10.7 billion in total debt weighing down the balance sheet. Most of this debt is long term in nature, though. With a minimal debt coming due over the near term, Air Canada looks ready to weather the storm and roll with the punches as they come along.

Air Canada is in survival mode

Air Canada sports a stellar 1.04 quick ratio and will not go down at the hands of the coronavirus without a fight. Even if the pandemic were to drag through 2021, I still think Air Canada will be hanging in there with its strong balance sheet and minimal relative cash burn. The company is in full-on survival mode, and I ultimately think the odds of the airline making it through this typhoon in one piece is high, making shares of AC a compelling value for deep-value contrarian investors who have a strong stomach.

With a decent cost structure and economies of scale that have been developed over the years, cash burn can be kept to a minimum, as the firm looks to buy time for itself. The stock trades at a mere 1.02 times book and is far more liquid than most folks on Bay Street and Wall Street would give it credit for.

Foolish takeaway

If you're in the belief that a coronavirus vaccine will land in late 2020 or early 2021, Air Canada is nothing short of a steal here with its solid liquidity position and below-average cash burn rate. For those who are looking to build a COVID-19 "barbell" portfolio, I'd say AC is a speculation that's worthy of taking with shares trading at book.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Investing

Date
2025/08/22
Date Created
2020/06/03
Author
joefrenette