



## Will Air Canada (TSX:AC) Stock Ever Recover?

### Description

While the **TSX Index** has soared more than 35%, **Air Canada** ([TSX:AC](#)) stock has largely been rangebound in the last two months. As a relief to investors, the stock has stayed stable, despite a streak of gloomy developments recently.

### Air Canada: Do we see the light at the end of the tunnel?

The flag carrier restarted operations last week with a reduced capacity after weeks-long border restrictions. Though demand would be slow initially, as fear would still dictate flyers, it is much better than burning cash on zero operations during the toughest of times.

More importantly, Air Canada's increased cargo flights and [resumed operations](#) could reduce the amount of cash burn in the more challenging second quarter.

Investors should note that Air Canada is better placed in this crisis than many global airline giants. While some aviation bigwigs are seeking bailouts and some have filed for bankruptcies, the country's biggest airline is in a reasonable position to sustain longer.

Coming into 2020, the airline has enjoyed a solid liquidity position. It is certainly the management's far-sighted thinking that has worked well and will likely help weather the disaster.

### Should you consider Air Canada stock right now?

So, does that make Air Canada a solid investment? Not really! Not at this time. I think Air Canada remains a high-quality business. Its large market share and operational efficiency make it stand tall among peers across the globe. But the uncertainties created by the macro environment right now will likely continue to weigh on it.

The air travel will remain subdued for the next several quarters. Air Canada expects three years to reach air traffic to its pre-pandemic levels. That means more uncertainties, more losses, and even

more volatile stock!

Investors should note that its current healthy cash position could also come under serious pressure if these hostile conditions persist for longer. Analysts estimate Air Canada to turn back to profits in the second half of next year.

What could notably sway things for airline companies, and ultimately Air Canada, is the launch of the vaccine. A sooner-than-expected vaccine should not be totally ruled out and could be a game changer. One should expect a quicker and much steeper recovery in that case.

Jet fuel prices, which form the major cost component for airlines, have notably fallen in the last few months. Lower fuel prices for longer will also support a [faster recovery](#).

Despite these rays of hopes, uncertainties are too dominating at the moment. Warren Buffett, the legendary investor known for his patience and long-term investment thesis, gave up on the airlines last quarter.

I believe the road to recovery for airlines is going to tough and could be longer. But I don't think air travel is going to change substantially forever post-pandemic.

## An attractive TSX stock from the aviation space

Canadian investors looking to bet on the aviation space at this point can consider **Cargojet** ([TSX:CJT](#)) stock instead of Air Canada. The freight and logistics airline company has managed to operate almost normally throughout the COVID-19 pandemic.

Its first-quarter earnings were relatively better, which was mirrored in its stock. Cargojet stock is up more than 25% so far this year.

The cargo carrier will most likely continue to operate as usual, even after the pandemic.

However, its stretched valuation might concern discerned investors. It is currently trading at a forward price-to-earnings multiple of 76 times, much higher than its historical valuation. Interestingly, Cargojet stock has soared more than 400% in the last five years, notably beating the Air Canada stock.

### CATEGORY

1. Coronavirus
2. Investing

### TICKERS GLOBAL

1. TSX:AC (Air Canada)
2. TSX:CJT (Cargojet Inc.)

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