



Are Airline Stocks Too Risky to Buy Right Now?

Description

Airlines are a classic play right now for contrarian opportunities in chewed-up sectors. But what risks are there in this space, and are there hidden dangers that the headline blur fails to recognize?

The case for buying airline stocks

Canadians are likely to take to the skies *en masse* as soon as it is proven to be safe to do so. Indeed, even with the middle rows of flights off-limits to reduce transmission of COVID-19, airlines are likely to see some improvement this year in terms of bookings.

Next year could see a continuation of this recovery, while a successful vaccine would help put airlines back on a flight path to profits.

Even then, several restrictions are likely to impact this space, making airlines a weak play for profitability in the near to mid-term. With around 20% of fleets potentially remaining tarmac-bound for approximately three to five years, capacity is likely to be a hot issue for airlines. As with other areas of the economy, a balance of caution is key.

Wherever the line between transmission rates and economic recovery is drawn, growth will have to be achieved fast in order to capitalize on a sudden return to air travel. In order to do so, airlines will have to contend with flights operating below capacity.

A key stock to buy for sudden growth

Investors looking for a classic contrarian play should consider **Air Canada** ([TSX:AC](#)), the country's leading airline stock. A lower-risk play exists in **Onex**, which bought out WestJet last year for \$3.5 billion. The asset management firm has ditched just 6.6% in the last three months, in contrast to Air Canada's plunge of 32%.

However, with greater downside comes [greater momentum potential](#): Air Canada was riding a five-day

bounce of 35% at the start of the week.

Air Canada has generated a mountain of stenography in the last couple of months. And for good reason: This is Canada's most prolific airline, after all. But is its stock too much of a risk right now in a portfolio built around sustainable growth?

The question hinges on one thing – reaching the bottom. Until Air Canada stops being a falling knife, the downside risk in this name is too great to ignore.

But investors intent on adding Air Canada to a stock portfolio may find that they miss out on value opportunities by trying to time the market. A [reduced-risk strategy](#) may therefore be the better option. Investors may want to split an eventual position into several parts and buy this name in stages.

The turbulence in the economy is likely to continue for the foreseeable future. With the National Bureau of Economic Research declaring February as the beginning of the American recession, Canadians should expect financial recovery to be a long-haul affair on either side of the border.

Indeed, until growth across the whole period is achieved, an actual recovery is still yet to come. However, given those steep rallies, it's now looking likely that a recovery could be V-shaped rather than L-shaped.

This should be reassuring to the long-term value investor looking for a quick return to normalcy on top of those deep discounts in beaten-up names.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

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

Category

1. Investing
2. Stocks for Beginners

Date

2025/08/18

Date Created

2020/06/10

Author

vhetherington

default watermark

default watermark