



Is Air Canada (TSX:AC) Stock About to Crash Again?

Description

It's a scary time to invest. Macroeconomic indicators paint a bleak picture, yet stock markets are rising to new heights. Companies like **Air Canada** ([TSX:AC](#)) are particularly hard to forecast. Dozens of offsetting [factors](#) are at play, many of which are historical firsts.

But history has shown that this is the *best* time to be investing. When conditions are unclear, opportunities arise. That's how many investors currently feel about airlines, which have seen an incredible reduction in valuation. Plane travel isn't going away anytime soon, and the [upside](#) at current levels could be sizable.

Still, caution is warranted. Many airline stocks will eventually go bankrupt. The survivors will thrive by taking market share. Knowing which companies will fall into each bucket is critical for investing success.

In February, Air Canada stock was priced at \$45. In March, shares bottomed at \$12. A quick rebound, however, has pushed the stock price back above \$20, a near double. Here's the most important question facing Air Canada investors today: Will shares crash again?

Here's the situation

First, the bad news. People aren't flying, yet airlines are stuck with massive fixed costs. This is a recipe for disaster. In 2020, expect every airline on the globe to post major losses.

How has Air Canada fared? Not so well. Last quarter, the business posted a \$1 billion loss. Keep in mind that the current market cap is just \$5.5 billion. A few more quarters like this, and the company will go belly up.

"No adjectives can adequately describe the pandemic's cataclysmic effects upon our industry, nor can numbers fully quantify the extent of financial devastation," warned CEO Calin Rovinescu. "We're now living through the darkest period ever in the history of commercial aviation, significantly worse than the aftermath of 9/11, SARS, and the 2008 financial crisis."

Air Canada is doing everything it can to right the ship. In the second quarter, the company reduced capacity by nearly 90%. The third quarter won't bring much relief, with capacity still reduced by 75%.

The stock price crashed earlier in the year as a result of this pain. Yet in recent weeks, shares have nearly doubled. The stock is still a far cry away from its previous highs, but sentiment has turned bullish, so much so that analysts project revenues to *double* by the end of 2021, signaling an end to the downturn.

Should you trust the optimism?

Trust Air Canada stock?

Despite the rally, company executives are warning investors to brace for more pain. The situation looks dire.

"We don't believe that you flick on a switch by the third quarter and all of a sudden we're back to 2019," CEO Rovinescu stressed. "That's why we've estimated what we said is a minimum of a three-year recovery timeframe."

Industry experts are similarly cautious.

"There remains significant uncertainty around the timing of the lifting of international travel restrictions, how willing travelers will be to get on a plane and what safety measures will be introduced at airports and on the flights themselves," notes Cameron Doerksen, an analyst at **National Bank of Canada**. "We therefore see significant losses and negative free cash flow in the coming quarters keeping us cautious on investor enthusiasm for airline stocks."

It's hard to disagree with this sentiment. The future is far from uncertain. We've yet to see the initial wave of airline bankruptcies, but they will occur. **Delta Air Lines** is reportedly burning \$50 million in cash per day.

Air Canada stock may prove a steal for long-term investors, but there's likely another crash on the way.

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