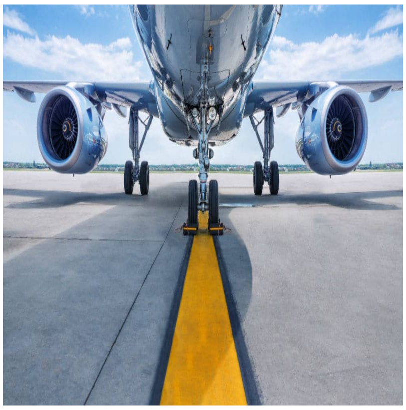

Why You Should Buy Air Canada (TSX:AC) Stock Now

Description

It's all doom and gloom for the airline industry. **Air Canada** (TSX:AC) stock, which is in the cross-hairs of the COVID-19 pandemic, fell as much as 80% at one point from last year's high.

The stock has since recovered to higher levels from the low in March, which suggests the stock was oversold previously.

Last month, Air Canada revealed that it planned to lay off more than half of its workforce, as travel demand fell off a cliff and flight capacity declined by 95%.

Air Canada is a recovery story. For starters, domestic travel is expected to improve later this year.

Air Canada stock raised $1.6 billion from the financial markets

Air Canada had a strong financial position before COVID-19. As stated in a company press release, the pandemic and the subsequent "government-imposed quarantines and border restrictions destroyed demand and depleted cash."

Although not ideal to raise capital at this time, it was a necessary move to improve the company's financial flexibility. Air Canada managed to raise $1.6 billion of gross proceeds from the financial markets.

Specifically, the airline company raised about $575.6 million of gross proceeds at $16.25 per share and about $1.02 billion of convertible senior unsecured notes due 2025 that paid an interest rate of 4% per year.

The successful capital raise suggests investors are optimistic about Air Canada and have confidence in the business.

Stabilized price action

The airline stock has been consolidating largely in the $15-$22 per share range since March. At writing, at $19.50 per share, it trades at above the midpoint of that range. Now that the stock appears to have stabilized, it's a good time to pick up some shares as a turnaround contrarian investment.

That said, the company is scheduled to report its second-quarter financial results on July 31. If interested investors are still worried about the company's outlook, they can wait until the end of next month to decide if they want to buy shares or not.

Air Canada stock's upside potential

The analyst average 12-month price target is $25.60 per share, which suggests 31% upside potential is in the cards from $19 and change per share.

It's going to take time for the recovery story to play out, though. However, even if Air Canada stock doesn't get back to its previous high of $50 per share, in three to five years, there's still a good chance that it could double investors' money from current levels and trade at roughly $40 per share.

The Foolish takeaway

The airline industry is in bad shape. Lots of bad news has legitimately pushed down the stock price of Air Canada. Right now, the airline stock is a contrarian turnaround story.

If you believe Air Canada's situation will improve from this point, you should consider some shares. The stock can deliver some hefty price appreciation — as much as rising 100%.

Since it's a highly volatile and relatively risky investment, interested investors should watch the amount they allocate to it, say, no more than 2% of their entire investment portfolio. Additionally, expect that the turnaround investment could take as long as three to five years to play out.

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