



\$1,000 Invested in 2006 Air Canada (TSX:AC) IPO Is Worth This Much Today

Description

As the COVID-19 pandemic rages on, the **Air Canada** ([TSX:AC](#)) saga continues to unfold. There has been plenty of drama surrounding the major Canadian airline. As Warren Buffett's **Berkshire Hathaway** recently unloaded all of its holdings in [major American airline stocks](#), there has been some debate about whether you should hold on to the Air Canada stock.

With the announcement of several provinces slowly opening up their economies and a resumption of flights, the Air Canada stock has started to climb after being substantially beaten down.

Air Canada IPO investors

When it comes to turnaround stories, Air Canada has to be one of the best. AC saw its Initial Public Offering (IPO) in November 2006 as it entered the market with a share price of \$18.75 per share. Since its launch, the stock seemed to sink further until it hit the lowest it had ever been in 2012.

The shares of this airline hit rock bottom at \$0.80 per share, decimating investor capital.

However, Air Canada saw a drastic improvement in its performance on the **TSX**. The stock began to increase in its value each year. By January 2020, Air Canada managed to gain more than 5,839% of its value to climb as high as \$52.71 per share.

The onset of COVID-19 and government-mandated lockdowns, however, entirely changed the picture. Since the start of the year, Air Canada has declined by over 64% and is trading for just \$17.85 per year.

If you invested \$1,000 in AC's IPO and stuck with the airline, there might have been a period where your capital witnessed impressive growth. However, that \$1,000 would be worth \$946.94 per share at writing with the current share price.

Recovery on the cards?

Since hitting its 52-week low of \$9.26 per share in March 2020, Air Canada seems to be rallying again. The stock is up by more than 46% from its share price in March. In a matter of a few months, it may seem like things are looking up for the airline again.

There might be optimism due to the gradual reopening of Canada's economy and the resumption of flights scheduled for July that are driving the stock higher again. Despite the positive signs, investors should realize that there is still plenty to consider for a more bearish view on the stock.

The resumption of flights does not mean it will be fully operational again. The airline will be limited to flying once a day. Investors should also note that flying in half-full planes will only increase expenses and add to the losses for the airline. AC might spend a significant portion of revenue on operating expenses.

With a net loss of \$1 billion in Q1, 2020 already hanging over its head, there is a lot of distance for the airline to catch up.

Another reason I don't presently have a positive outlook on the airline is that the demand for international flights might not return soon. People are still likely to refrain from traveling abroad due to health concerns courtesy of the pandemic. Resuming domestic flights without planes flying at full capacity will only increase the cash Air Canada is burning through.

Foolish takeaway

For the time being, the COVID-19 pandemic will continue to be a significant thorn in Air Canada's operations. The airline sector does not expect to generate the same revenues it did during pre-pandemic times within at least three years.

In light of the outbreak, Air Canada plans to reduce its capacity by 75% in the third quarter. The airline [recently raised funds](#) to improve its liquidity and cover its operating expenses in the immediate future.

While this move might help the airline stay afloat, I can't see the airline stock returning to its all-time highs soon.

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