



Air Canada (TSX:AC) Stock: Will It Surge Past \$25 by the End of 2020?

Description

Shares of **Air Canada** ([TSX:AC](#)) have been volatile in 2020 due to the COVID-19 pandemic. At the start of this year, Air Canada stock was trading at a record high of \$52.71. Then the dreaded pandemic struck and decimated the airline and travel sector.

Air Canada stock fell to a multi-year low of \$9.26. Since then, shares have more than doubled to \$18.54 but are still trading 65% below their record highs. So, is it a good time to load up on the Canadian airline giant or will shares slide further in the second half of 2020?

Air Canada investors are wary of the second wave

Air Canada stock has rebounded since mid-March. However, in the last five trading sessions, investors have lost 17% as there are fears of a second wave of COVID-19 infections. The **Dow Jones** fell over 6% on June 11 as another wave of infections [were reported in states such as](#) Arizona and Texas south of the border.

Air Canada commented that it would re-open several routes from July and a second wave could easily lower air traffic. Analysts already expect Air Canada sales to fall by a massive 91% drop in Q2. In the third quarter, company sales are forecast at \$1.25 billion, which is 77.5% below sales of \$5.55 billion in the third quarter of 2019.

It's a high beta stock

Air Canada is an attractive investment for people with large risk appetites. In the last five years, the stock has a beta coefficient of 2.06, which means the stock is twice as volatile as the market. It tends to outperform the broader market in a bull run and vice versa.

The airline heavyweight created massive wealth for investors in the last decade. It was in fact one of the top-performing stocks on the TSX. Air Canada stock returned 3,580% between January 1, 2010, and January 1, 2020. Comparatively, the **iShares S&P/TSX 60 Index ETF** returned 47% in this period.

However, if you dig deeper you can see why the airline sector continues to be a high-risk industry. Investors who bought Air Canada stock during its IPO back in 2006, would have seen a 1.1% decline in capital. Noted investor Warren Buffett also exited this sector and [dumped several airline stocks](#) in April.

Is Air Canada stock a buy?

The low valuation of Air Canada stock might be attractive to contrarian investors. It has a market cap of \$5.5 billion and is valued at 0.7 times sales. But there are several risks that will impact investors in the next year.

Airlines are a capital-intensive business and are burning through cash at a rapid pace. Even if Air Canada manages to re-start operations it will not fly at full capacity, impacting profitability due to high fixed costs and operating expenses.

Air Canada reported a net loss of \$1 billion in Q1. While the company has a strong balance sheet and enough liquidity to meet short-term obligations, the threat of bankruptcy looms over investors.

The demand for international travel will remain subdued in the next year or so. The world economy is also grappling with a slowdown and recovery in airline stocks may well be delayed. Air traffic is expected to return to pre-COVID-levels by end of 2022.

Air Canada sales touched a record high of \$19.13 billion in 2019. Analysts expect sales to reach \$14.5 billion in 2021, which is still 24% below its record revenue.

Even if this stock mounts a recovery in the second half of 2020, it might take a few years to reach its record high.

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Date

2025/08/26

Date Created

2020/06/17

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