



Air Canada Stock: Is It Finally Time to Buy?

Description

Air Canada ([TSX:AC](#)) is a volatile stock. At the start of 2020, shares were priced at \$50. Today, they're worth just \$19 apiece.

But it hasn't always been this way. For years, this company was the [definition](#) of a millionaire-maker stock. In 2012, for example, shares traded under the \$1 mark. Even when including the recent plunge, long-term shareholders have made a 2,000% profit in just eight years.

If you bought in 2012, a \$5,000 investment would have become \$100,000. Investors are hoping that the recent correction is another chance to get in on the action.

Trading at a 60% discount to its former highs, Air Canada stock tops the buys lists of countless industry analysts. Yet this isn't a risk-free bet. The coronavirus pandemic rages on, and the ultimate impact on airline stocks remains [uncertain](#).

There are some clues, however, that suggest when shares will experience a rapid turnaround. If you want to invest in beaten-down airline stocks, be sure to know and understand the following data points.

Know these facts

Last week, we got some good news: Air Canada will survive the coronavirus pandemic. According to management, the business recently raised \$1.6 billion by selling shares and issuing debt.

The primary motivation was to replace the sudden and dramatic cash burn experienced during the COVID-19 downturn.

The pandemic "destroyed demand and depleted cash," noted CFO Michael Rousseau. But he believes investor appetite for the recent capital raise indicated "a strong endorsement" from the market.

Of course, a difficult path remains for Air Canada. In May, it laid off 20,000 workers, more than half of its 38,000 workforce. Last quarter, the company grounded more than 200 airplanes, reducing capacity

by 95%.

What does the future hold? We can glean some clues from the recent investor conference call.

“The past quarter was the first in 27 consecutive quarters that we did not report year-over-year operating revenue growth,” warned CEO Calin Rovinescu. “We are now living through the darkest period ever in the history of commercial aviation.”

How long will this difficult period last? The news wasn’t encouraging.

“It is our current expectation that it will take at least three years to recover to 2019 levels of revenue and capacity,” Rovinescu stressed. “We expect that both the overall industry and our airline will be considerably smaller for some time.”

Buy Air Canada stock?

Investors are stuck between a rock and a hard place. While the company will survive, its operations will be significantly smaller for years to come.

Does that make the stock a buy or a sell? The truth is that there’s too much uncertainty to know. And Air Canada isn’t the only company dealing with this problem. Despite reaching multi-month highs, uncertainty in the stock market has seldom been higher. Legendary investor Jeremy Grantham sums up the situation succinctly.

“Everything is uncertain, perhaps to a unique degree,” he says. “There are no certainties but there are probably still some better and safer themes. Caution and patience are likely to be two of them.”

With so little visibility, it’s likely wise to stay on the sidelines. Air Canada stock will fluctuate wildly, but with more predictable companies trading at bargain valuations, it’s best to leave this opportunities to others.

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