



Air Canada (TSX:AC) Is Down by Over 62% Since January: Buy Now?

Description

Air Canada ([TSX:AC](#)) has fallen by 62% from the start of 2020, and the airline's troubles continue to mount as time goes on.

The COVID-19 pandemic struck sectors across the economy and sent the stock market falling off a cliff between February and March 2020. Since March, the market has rallied, and several sectors are on a path to recovery. Airlines, on the other hand, continue to eat away at investor funds.

With the price of this stock being close to the lowest they have been for several years, value investors might be eyeing Air Canada to buy for potential profits through capital gains.

Today I will discuss the beleaguered airline and whether I think it makes a good buy or a stock to avoid now.

False hopes

Since Air Canada hit its lowest point in March 2020, the stock went up and down. In a recent rally last week, the airline recovered substantially and rose to 88% from its March low. The stock witnessed a [sharp recovery](#) as investors bought the airline company's stock because of optimism.

The reason for their hopes of AC's recovery was the gradual reopening of economies and the resumption of domestic flights. However, even if the company resumes operations, its lower capacity to accommodate safer travel measures and lack of international flights will hurt its profitability.

The pandemic is nowhere close to being over. A second wave of the pandemic in China is creating further panic for the airline, which could lead to a further decline for the broader stock market along with AC.

Air Canada's only edge

Unlike its counterparts across the border, Air Canada does not have many competitors. There is little chance that the government will ever let the flag-carrying airline go bankrupt. However, as the COVID-19 situation develops further, we might see another slump in demand for the airline.

Air Canada's ability to recover might indeed be damaged for several months if the second wave of infections spread across the country.

Despite being the most significant airline in the country, the fact of the matter is that the company will struggle to return to profitability for a long time. I have severe doubts about Air Canada's recovery, and I do not expect to see pre-pandemic flight traffic until at least 2022 even if there isn't a second wave of infections in the country.

Foolish takeaway

The drastic decline of over 60% so far might have grabbed your attention to the potential of Air Canada being a bargain. However, you should note that the decline in share prices is due to several solid reasons.

The recovery is not close, and Air Canada might see further challenges in 2020. The airline already reported over \$1 billion losses. Given the persisting uncertainty and challenges heading its way, Air Canada's rising debt levels are becoming more dangerous.

I would advise considering other companies if you are in search of [value stocks](#) that can make you rich.

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