



Air Canada (TSX:AC) Just Became a Must-Buy

Description

In many prior pieces, I've touted **Air Canada** ([TSX:AC](#)) for having one of the better liquidity positions relative to many peers in the airline space. Management has done an incredible job shoring up cash, cutting capacity, controlling cash bleed, and doing everything in its power to make it through this crisis in one piece.

Air Canada issues new debt

Just this Monday, Air Canada's [survival](#) prospects became that much better, with the issuance of \$1.23 billion worth of new debt capital. The ailing airline now has a stellar liquidity position that will buy it more time to wait for the advent of a [coronavirus](#) vaccine. While Air Canada is still fighting for its life amid profound COVID-19-induced disruptions, its chances of survival, I believe, are now reasonably high.

Of course, a worst-case scenario with this pandemic could still spark a bankruptcy or some sort of government bailout. But given the "midpoint scenario" of the wide range of possible outcomes, I think it makes a tonne of sense for young investors to get skin in the game of a stock that could skyrocket on news of a vaccine breakthrough.

While betting on the outcome of such a binary event is more akin to speculating than it is investing, those with disposable income may find that such a spec bet on an airline stock like Air Canada is well worth making, especially if a majority of one's portfolio is sufficiently diversified in some sort of "barbell" portfolio with bond proxies or gold stocks to balance out the risks associated with COVID-19.

Air Canada and the airline stocks are must-owns if you're optimistic about a vaccine

Once a vaccine is readily available for distribution, I'm of the firm belief that the air travel industry will recover within months and not years, as people rush to get back on planes once it's completely safe to

do so. If the masses can get vaccinated, the air travel industry may be in for more of a V-shaped recovery than the multi-year U-shaped recovery that some pundits, including **Boeing** CEO David Calhoun, think could be in store.

Of course, if a vaccine doesn't land within the year, or if such a vaccine isn't as effective for the masses (for instance, a prospective vaccine may not work for the elderly), the airlines will continue to be turbulent and will likely continue to nosedive, potentially below those March lows.

For a super-liquid airline like Air Canada, though, I think it has more time to wait for a vaccine before the stock plummets to the single digits en route to \$0. While Air Canada doesn't have the best solvency position in the world, with an alarmingly high 2.5 debt-to-equity ratio as of the end of Q1 2020, investors would be comforted to know that a majority of the debt that's weighing down the balance sheet will not come due anytime soon.

Foolish takeaway

The upside to be had in a name like AC has the potential to be profound if the right cards fall into place over the coming months. While there is some chance of bankruptcy if an effective vaccine takes years to arrive, I think the risk/reward tradeoff is tilted in the odds of the investor, with AC shares trading at just 1.2 times book.

If you're a youngster with the ability and willingness to take on a higher degree of risk, Air Canada is the kind of spec bet you should seek to make here, even in the face of seemingly insurmountable headwinds.

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Date

2025/08/03

Date Created

2020/06/26

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