



Should You Buy Air Canada (TSX:AC) Stock in July?

Description

When the COVID-19 pandemic first showed signs of outbreak in North America, markets took a major hit. Meanwhile, legendary investor Warren Buffett opted to make a big bet on the airline sector. [Buffett retreated from that bet](#) in the beginning of May, which hurt the prices of airline stocks across North America.

Air Canada ([TSX:AC](#)) is the largest airliner in the country. Its shares have plunged 65% in 2020 as of close on July 6.

Today, I want to discuss whether investors should buy the stock in early July.

Air Canada: The story so far in 2020

The airline industry has been throttled due to the COVID-19 pandemic. Travel and tourism fell off a cliff due to border closures, halts to international travel, and even general fear among the global population. Air Canada was not spared from these developments.

In its first quarter 2020 results, the company reported a net loss of \$1.05 billion or \$4.00 per diluted share compared to net income of \$345 million or \$1.26 per diluted share in the prior year.

In Q2 2020, Air Canada announced that it had reduced capacity by 85-90%. Capacity in the third quarter is expected to drop by 75% compared to Q3 2019. Moreover, Air Canada accelerated the retirement of 79 older aircraft from its fleet.

Fortunately, Air Canada is in a much better position compared to the turbulence it faced during the Great Recession. Management was laser-focused on bolstering its balance sheet over the past decade. At March 31, 2020, Air Canada possessed unrestricted liquidity that amounted to \$6.52 billion.

Air Canada forecast that it would take up to three years to recover in its Q1 2020 report. However, good news on the domestic front could mean a faster-than-expected rebound for Air Canada and its peers.

Why Canada's top airliner can bounce back

Shares of Air Canada have dropped 16% over the past month. In the middle of June, I'd discussed why the stock looked like a [value pick](#) to start the summer. Canada has seen cases drop significantly into July.

This has prompted provincial leaders to move forward with their reopening plans. Meanwhile, Air Canada and WestJet moved to end seat distancing on July 1.

Airliners will now be able to operate at a greater capacity without these restrictions in place. This change has attracted some criticism from health officials and onlookers. However, it will provide much-needed flexibility to airlines as they battle significant financial headwinds in this environment.

It took roughly half a decade for the airline industry to recover from the September 11, 2001 attacks. There is no telling how long the industry will feel the aftereffects of this pandemic. Moreover, we could see sweeping regulatory changes that are introduced as a preventative measure in the years to come. Still, Canada's plummeting case rate is cause for celebration for the industry.

Should you buy today?

Air Canada stock last possessed a favourable price-to-book value of 1.1. The company still has a solid balance sheet. Airlines are facing turbulence in the near term but going forward this industry is still due for strong growth. Air Canada stock is well worth scooping up in July.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Investing

Date

2025/08/26

Date Created

2020/07/07

Author

aocallaghan

default watermark

default watermark