



Air Canada (TSX:AC): Is the Stock a Buy at \$16?

Description

The share price of **Air Canada** ([TSX:AC](#)) is back down to \$16 today, hitting its lowest level in more than a month. [Contrarian](#) investors with a positive view on the airline industry want to know if the stock is a safe buy at this level.

Air Canada stock turbulence

Air Canada saw its share price rise from below \$1 in 2012 to above \$50 in February 2020. The massive rally off the previous crash is one reason investors are so interested in the stock.

Air Canada come with risk. It narrowly avoided a bankruptcy eight years ago and actually went through bankruptcy and a restructuring in 2003.

The 2003 crash in air travel came as a result of fears surrounding another health scare, SARS. In the spring of that year, Air Canada reported a Q1 loss of \$354 million. The company grounded 40 planes and cut a dozen routes. The summer of 2003 saw capacity drop roughly 17%.

In 2020, Air Canada reported a Q1 loss of \$1 billion. Second-quarter capacity dropped by 85-90% year over year, and Air Canada has grounded more than 200 planes. The company hopes to get back to 25% capacity by the end of December, assuming governments lift bans on foreign travel.

Liquidity remains the difference between the 2020 situation and that of 2003. Air Canada managed to raise significant funds in recent months and has just under \$10 billion in liquidity to help it ride out the pandemic.

Is Air Canada unique today?

Air Canada is certainly in a better situation than many of its global peers. European airlines are getting government bailouts. Three of Latin America's largest airlines filed for bankruptcy protection in the past three months. Several other airlines around the world have also entered creditor protection.

The CEO of **Boeing** took some heat in May after saying a major American airline will likely go bankrupt as a result of the pandemic.

Rising coronavirus cases in several states could delay the recovery in the U.S. airline sector. That puts pressure on international carriers, as well. Americans are still not allowed to travel to European Union countries. They are also restricted from non-essential travel into Canada. Interestingly, Canadians can fly to the United States. Canada is also on the new list of approved countries for travel to the E.U.

Air Canada cut roughly 20,000 jobs in June and is burning through \$20 million per day. The company recently said it will start filling the middle seats on flights. This might deter travellers that would otherwise have booked a trip.

Airlines say safety measures are in place to minimize risk. However, reports emerged in the past two weeks of travellers with COVID-19 who managed to take domestic flights to Vancouver, Toronto, and Winnipeg.

Should you buy Air Canada stock today?

The \$16 share price looks cheap compared to the 2020 high, but investors should be careful. Coronavirus case trends in the U.S. and across many countries in the world continue to go the wrong way. This could delay the removal of travel restrictions well into next year.

Air Canada won't disappear, but shareholders were wiped out in 2003 and nearly suffered the same fate in the wake of the Great Recession.

With that thought in mind, I would probably search for other cheap stocks in the market that at least offer attractive [dividends](#).

Volatility in Air Canada's stock price should be expected until it becomes clear the recovery in the airline industry is on track. A near-term dip to the March low around \$12 per share wouldn't be a surprise.

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