



Why Air Canada (TSX:AC) Stock Plunged 29%

Description

Air Canada ([TSX:AC](#)) stock is a strong sell. Or at least that's what one analyst thinks.

"The aviation industry has been decimated," says aviation expert Phyl Durdey. "I've heard from a couple of sources that Air Canada is flying a 787 with 20 people onboard. You can't make money with that," Durdey [warns](#).

But many investors view the COVID-19 crisis as an opportunity to buy into airline stocks at bargain prices. At the start of the year, AC stock was above \$50. Now, it trades at just \$16.

For a while, investors were smelling a rebound. In the first week of June, shares spiked nearly 40%. Recent weeks have brought more pain, with shares falling 29%.

Before you make a [bet](#) on Air Canada, make sure you know what you're betting on.

Understand what's happening

If you want to take a bet on struggling airline stocks, just know this: no one knows what's going to happen. The coronavirus pandemic is simply unprecedented. Let's hear what some CEOs have to say.

"We could never have predicted how quickly the coronavirus pandemic would upend our plans as demand for near-term air travel dropped to almost 0 in a matter of weeks," says **Delta Air Lines** CEO Ed Bastian. "We are realistic that the timing and shape of revenue recovery are uncertain and are prepared that it could take up to two to three years to return to a new level of normal, which could still be lower than 2019 revenue base."

This prediction aligns with Air Canada's management team, which expects the downturn to last for at least two to three years. Notably, **Boeing** and **Airbus** see challenges existing for up to five additional years. It's a complete guess at this point.

"It's a challenge bigger than anything we've ever faced as far as obviously has had an impact on the

global but probably no industry as much as the airline industry,” says Doug Parker, CEO of American Airlines. “We expected to average \$70 million a day in cash burn from the second quarter. And we expected that number to decline to approximately \$50 million per day by the month of June.”

This statement is less controversial. Despite a miracle, almost every airline will be pushed to the financial limit in 2020. If we get a second wave this winter, expect airlines continue burning a pile of money on a *daily* basis.

Bet on Air Canada stock?

There’s no debating that times are tough. Airlines are playing a game of survival right now. A handful of global carriers have already gone bankrupt, and more are expected.

But aren’t you supposed to buy when there’s blood in the streets? Yes, but only when it’s possible to value the business. With such limited visibility, it’s anyone’s guess how much these stocks are worth. No wonder Warren Buffett *completely* exited his airline positions last quarter.

If you jump into a stock like Air Canada, know that you’re buying a lottery ticket. That’s a shame given that there are high-upside stocks to buy right now with much less risk.

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Author

rvanzo

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