



## Air Canada (TSX:AC): Is the Stock Attractive Today or Still Too Risky to Buy?

### Description

Contrarian investors who bought **Air Canada** ([TSX:AC](#)) stock at the bottom of the last crash had an opportunity to lock in massive gains in the subsequent years.

Will the same thing happen to new investors who buy Air Canada shares today?

### Air Canada stock volatility

Air Canada's stock price has a history of losing major altitude. During the SARS health scare in 2003 Air Canada saw travel bookings plunge. The company's balance sheet wasn't solid at the time and Air Canada found itself filing for bankruptcy by the end of the year.

The business restructured and emerged from bankruptcy protection in the fall of 2004 without all the cumbersome debt. Shares traded in a narrow range for a few years and then things started to get ugly again in 2007. The stock traded near \$20 per share in February of that year. By early 2008 it was down to \$10.

Bargain hunters thought they might be getting a deal at that point. However, the situation got worse through the financial crisis. In fact, Air Canada traded for less than \$1 per share by the spring of 2009 and spent most of the next four years below \$4.

The global economic recovery kicked into gear just about the time oil prices fell off the cliff in 2014 and 2015. That provided Air Canada with a nice tailwind. The stock then soared from \$7 in early 2016 to \$50 in early 2020 before the arrival of the pandemic lockdowns.

Today, Air Canada trades near \$16 per share and [contrarian](#) investors are trying to decide if the stock is poised for another major rally, or destined to revisit penny-stock status.

### Opportunity

Air Canada raised a bunch of cash in the past few months. With nearly \$10 billion in liquidity, the company has access to enough funds to ride out the storm for some time.

The pandemic lockdowns are starting to ease in many countries and some regions are beginning to open their borders to foreign visitors. The European Union is allowing travellers from 14 countries, including Canada to visit. Increased travel within Canada should also start to improve.

Once the Canadian government lifts bans on foreign visitors, Air Canada should see bookings start to rise again.

## Risks

The United States is seeing rising COVID-19 cases in many areas, with major outbreaks in places where Canadians tend to go for vacation. Florida and Arizona, in particular, are struggling to get things under control. Canadians are allowed to fly to the United States, but non-essential travel by Americans to Canada is still not allowed.

Fuel costs remain low, with West Texas Intermediate (WTI) trading around US\$40 per barrel. Some pundits are predicting a major spike in oil prices in the next few years due to major investment cuts across the industry.

In the event oil surges toward the US\$80-90 range, the cost of jet fuel could rocket higher, putting severe pressure on margins as airlines struggle to get back to full planes.

Business travel is another wildcard. The fancy seats in the front of the plane are the most profitable for airlines. The pandemic has forced companies around the globe to conduct business through online meetings. While this can never fully replace the benefit of in-person discussions, companies can save significant costs by reducing expensive trips by their sales people and executives. The airline industry might never see the same level of business travel.

## The bottom line

Air Canada appears cheap today compared to where the stock traded in February. That said, I would probably wait for the skies to clear on travel restrictions before buying the shares. It wouldn't be a surprise to see the share price test \$10 before the end of the year if the broader market goes through another heavy correction.

The **TSX Index** is full of discounted stocks right now that appear attractive. If you want to make a contrarian bet, it might be better to buy a stock that pays a solid [dividend](#). This way, you at least get paid well until the share price recovers.

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## **Date**

2025/08/18

## **Date Created**

2020/07/15

## **Author**

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