Will Air Canada (TSX:AC) Stock Turn $20,000 Into $1 Million?

Description

Air Canada (TSX:AC) is a millionaire-maker stock. Or at least it was. In 2012, shares were priced at $1. Eight years later, they surpassed $50. To make $1 million, you needed to invest just $20,000.

The COVID-19 pandemic upended this string of success.

“The pandemic and government-imposed lockdowns and travel restrictions the world over have ended a run of 27 consecutive quarters of year-over-year revenue growth,” explained CEO Calin Rovinescu.

“Our solid January and February results despite weakness in China and other Asian markets gave us every encouragement that this performance would continue until the sudden and catastrophic onset of COVID-19 in Europe and North America in early March,” he concluded.

The airline industry has gone through countless shocks since the advent of commercial flights. Air Canada, for example, lost more than 90% of its value in the years leading up the financial crisis of 2008. If you had bought AC stock at those lows, when the world was rampant with uncertainty, you would have made a killing.

Is this another chance to turn a bit of cash into a fortune?

Learn these facts

The current downturn is going to last a while. Or at least that’s what Air Canada executives are saying.

“We’re now living through the darkest period ever in the history of commercial aviation, significantly worse than the aftermath of 9/11, SARS, or the 2008 global financial crisis … And there is little doubt that we are not yet out of the trough,” its management team stressed.

At the worst of the crisis, more than 100 carriers suspended service. Those that remained operated at less than 5% of capacity.

“Realistically, we expect it to take at least three years for Air Canada to get back to 2019 levels of revenue and capacity,” CEO Calin Rovinescu warned investors in May. If you’re looking for a quick business turnaround, don’t bet on airlines.

But there’s a catch here. Stock prices are a reflection of *expectations*, not reality. If Air Canada shares are priced for an extremely terrible few years, and the reality is simply a challenging few quarters, the stock could rise considerably. The only question left is, what expectations are currently baked into AC stock?

Should you buy Air Canada stock?

The current crisis is unprecedented. That makes it extremely difficult to put a value on the company. Right now, the business generates multi-million-dollar losses on a daily basis. No company can survive this cash burn forever. If it doesn’t stop, shares theoretically have *zero* value.

Last quarter, the company had $5.7 billion in cash and reserves. Factoring recent cash burn and new financing likely pegs the sum at a similar figure. That means the business should have roughly two years of runway if conditions remain dire. That’s good news considering the IATA believes airlines will lose $450 billion in passenger revenue in 2020.

On a valuation basis, Air Canada trades at 0.6 times 2020 sales. Analysts predict a return to normal by 2021, forecasting a *doubling* in revenue, meaning shares trade at just 0.3 times forward sales. That’s two-thirds lower than the stock’s historical average.

The key here is timing. If the world returns to normal by next year, Air Canada is a clear buy. If it takes multiple years, that high upside could turn into 100% downside.

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