



Air Canada (TSX:AC) Stock Surges: Buy Now or Take Profits?

Description

Air Canada ([TSX:AC](#)) just saw its stock price surge 8% on positive news connected to COVID-19 vaccine trials. Contrarian investors want to know if this is a good time to add the stock to their [buy](#) list.

Vaccine hopes

Air Canada traded above \$50 per share in February. The stock hit a closing low around \$12 in March. Since then, traders have had a field day. The stock rallied as high as \$23 in early June, but pulled back to \$16 over the past month amid rising coronavirus cases in the United States.

At the time of writing, Air Canada trades close to \$17.30, adding more than 8% compared to the previous day's close.

Is the rally sustainable?

Air Canada and its peers say it could be three years before the industry returns to 2019 capacity. Some analysts think five years is a more reasonable prediction.

Everything depends on the development and widespread distribution of a COVID-19 vaccine. Extensive global travel restrictions are expected to remain in place until that happens. The Canadian government is not allowing foreign visitors, despite pressure from Air Canada and other airlines to ease restrictions. It is unlikely a change in policy will occur in the near-term.

Risks

American carriers indicated in recent days that the rise in cases across much of the U.S. will slow the recovery of the U.S. airline sector. **Delta Air Lines**, for example, reported its worst Q2 results since 2008 and is adding only 500 flights per day next month compared to its previous plan for an additional 1000.

A surge in COVID-19 cases in the southern part of the United States is hitting travel demand as states with the pandemic under control increase quarantine rules on passengers arriving from hard-hit parts of the country.

The U.S. is an important market for Air Canada. As such, the rise in cases south of the border could hurt the company's recovery progress.

Within Canada, the airlines have started to sell middle seats to boost revenue. This could keep people from booking trips out of fear that they can't be adequately distanced from other passengers. Carriers say safety measures are in place, but reports continue to emerge that sick travellers are still getting on planes.

Should you buy Air Canada stock today?

The vaccine is key. If it is widely available by early next year, Air Canada's share price could really take off in 2021. Contrarian investors with a stomach for volatility might be tempted to buy near the current level, but I would wait.

Based on the numbers coming from the U.S. airlines, investors should brace for ugly Q2 results from Air Canada. The company said in May that it was burning through more than \$20 million in cash per day.

Air Canada has adequate liquidity to get it through the end of the year, and probably through 2021, as well. That said, the global trend of the pandemic today doesn't paint an optimistic picture for the travel industry. Governments are going to be extra cautious after the aggressive reopening in some areas has led to a spike in coronavirus cases.

Traders might be able to pick up quick profits on positive stock moves driven by vaccine news events. Investors with a buy-and-hold strategy have to weigh the near-term risks against the potential long-term rewards.

Air Canada filed for bankruptcy in 2003 due to the downturn caused by SARS. The stock later plunged 95% as a result of the Great Recession. The drop from \$50 to \$17 this year might be tempting for [contrarian](#) investors, but there is still a risk things could get worse before the recovery arrives.

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