

Is Air Canada (TSX:AC) Stock a Millionaire-Maker With Rickety Legs and Lack of Visibility?

Description

Air Canada (TSX:AC) is among the most actively traded stocks on **TSX**. Shares of the beleaguered airline company have been highly volatile with any recovery followed by steep fall. Travel restrictions amid the COVID-19 outbreak have kept its flights grounded. However, its cash burn continues, though at a slower pace with cost-cutting measures in place.

Immense selling pressure has dragged its stock down, resulting in a 64% erosion in its value on a year to date basis. The massive decline in value could lead a few investors to pile on this beaten-down TSX stock in expectations of huge gains. However, is Air Canada stock a millionaire-maker or investors are in for a rude shock?

Empirical evidence indicates that Air Canada can retest its glory. Air Canada stock has surged from \$1 to over \$50 in the past. However, with a lack of visibility and rickety legs, it's tough to gauge whether Air Canada stock can be a millionaire maker.

The rising coronavirus infections continue to weaken bookings. Meanwhile, international borders are still closed, leading to a significant drop in traffic. With low consumer confidence and health risk, airline companies could witness a sharp decline in advance bookings, which makes it tough to gauge demand and capacity.

What the future holds for Air Canada?

The recommencement of domestic flights and a slow uptick in economic activities gives Air Canada some breathing space. However, getting traffic back with low consumer confidence and reluctance to travel is not easy. Moreover, several countries, including Canada, are in no rush in reopening their borders for business and leisure trips.

Investors should note that global expansion was one of the biggest priorities for Air Canada in the past decade. The airline company successfully expanded its capacity by 90% with international services

accounting for most of it.

Now with a significant drop in international traffic, Air Canada is likely to take a big hit. In June, rating agency Fitch signaled concerns for Air Canada's high dependence on international revenues. Fitch also downgraded the company's Long-Term Issuer Default Rating.

Reluctance to travel with the virus in the background, cash burn, and prolonged restrictions on international flights could continue to limit the upside in Air Canada stock. Though Air Canada has ample liquidity and is drastically cutting costs to weather the current crisis, its high debt and low operating revenues make me skeptical.

Bottom line

With the significant drop in its stock price and lack of visibility, Air Canada stock looks to be a more of a speculative bet. Investors with a large appetite for risk and patience to hold it for long should only bet on Air Canada stock.

Any prolonged delay in lifting the international travel restrictions, customers' continued reluctance for air travel, and rising infections could drag its stock further down.

Moreover, the recovery in Air Canada stock could test your patience. The airline industry is likely to take several years to come out of the gloom and reach the pre-pandemic levels. default

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