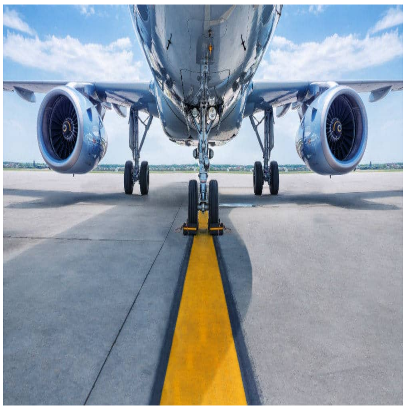

Air Canada (TSX:AC): Should You Buy the Stock at $17?

Description

Air Canada (TSX:AC) stock hit a record high at the start of this year but started plunging sharply when the pandemic put a halt to travel. The stock has been anchored for months, as investors continue to worry about the future of air travel in a profoundly changed world.

COVID-19 has been a nightmare for airlines

Air Canada CEO Calin Rovinescu said in an interview with the *Financial Post* that the COVID-19 pandemic has been "hundreds of times worse" for airlines than other events in history such as September 11, SARS, and the 2008-2009 financial crisis.

There is an opportunity for a huge return with Air Canada if and when the airline industry recovers, but it is a high-risk bet.

Air Canada stock jumped nearly 4% on June 29, as the company announced that flights for economy class customers were reaching capacity due to flexible re-booking options. The announcement came as Air Canada and WestJet said the week before that they would abandon the practice of keeping middle seats empty as part of an effort to maintain social distance on flights, as the pandemic of COVID-19 extends.

The two companies appealed to recommendations from the United Nations Aviation Agency and the International Air Transport Association trade group, which said that the spread of COVID-19 could be adequately combated through other measures, such as surface cleaning, pre-boarding temperature checks, and mask requirements on flights.

Air Canada looks like a good long-term buy

Air Canada is trying to get back on its feet after being shut down for months. With COVID-19 cases on the rise in the United States and other countries around the world, it's very difficult to know when customers will want to fly back to a level close to the levels they were barely six months ago. The lack of clarity could be a buying opportunity for the airline if you're willing to take the risk.

If you believe that people will start traveling to a large extent within the next two or three years — and they could well — then Air Canada could be a buy at current levels.

What could really help Air Canada and other airlines is a vaccine. Air Canada gained almost 14% on July 15 on positive news about a vaccine.

Investors should keep their eyes on the airline's long-term prospects. When you buy a stock, you should have a long-term horizon, ideally at least three years. Air Canada management believes it will resume normal operations by 2023. If the stock goes back to $50 in 2023, you'll have a nice 200% return or a compound annual return of about 43%.

In the airline industry, Air Canada is better prepared than most to weather the storm. Indeed, a report by JP Morgan earlier this year showed that the Canadian airline had the highest liquidity ratio score among all the major airlines.

Air Canada has also just concluded a round of financing generating up to $1.23 billion in additional capital. Since the start of the COVID-19 pandemic in the first quarter of this year, the company has raised a total of $5.5 billion of liquidity.

The stock's five-year PEG ratio, at 0.1, is very low. So, the stock is very cheap relative to its high potential future growth. If you can tolerate some short-term volatility, Air Canada stock is a buy now.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/19
Date Created
2020/07/20
Author
sbchateauneuf