



It's Not Too Late to SELL Air Canada (TSX:AC) Stock!

Description

Air Canada ([TSX:AC](#)) was one of the biggest losers in the 2020 stock market crash. Down 66% year to date, it hasn't recovered significantly from its March losses. While the **TSX** has by now mostly walked off its pandemic losses, Air Canada remains way down from its previous highs.

For investors, this situation presents a dilemma: Do you sell now, or hold on hoping for a recovery? If you bought AC when it was in the 1950s, it might hurt to cash out today at such a dramatic loss. On the other hand, if Q2 is worse than expected, you may see your investment decline more in the future.

This seems like a tough dilemma. However, when you look at Air Canada's medium-term prospects, the appropriate course of action becomes quite clear.

Three more years until things get better!

The first thing you need to keep in mind about Air Canada is that its *own management* is forecasting long-term pain. In their first quarter report, they said they expected it would take [three full years](#) to get back to 2019 revenue levels.

The company's pre-COVID valuation not only priced in that level of revenue, but presumably, significant revenue growth. Now, we're looking at 2022 just to get back to where we were before all this started.

Not good.

Yet it gets worse. While Air Canada's revenue has tanked, many of its expenses remain. [Pension liabilities](#), interest charges and plane storage costs come in whether an airline's planes are actually flying. So with lower revenue, Air Canada will have a hard time turning profits. Speaking of which, let's look at what Air Canada is likely to report for Q2.

Q2 likely to sting

In Q2, Air Canada will likely report lower revenue than it did in Q1. That's because Q2 saw three full months of COVID-19 lockdowns, while Q1 only had one (March). Q2 also saw Air Canada leverage up its balance sheet with debt and dilute equity with new shares.

EPS for the quarter is likely to be negative. Earlier this month, an anonymous air Canada employee reported that the company was losing \$20 million a day, which works out to about a \$2 billion loss for the entire quarter. The fallout when that's revealed will likely be massive.

Foolish takeaway

When you've been holding on to a stock, it's tempting to keep holding. Selling out a losing position feels like admitting your analysis was wrong, which is never fun. However, sometimes you just need to take your losses on the chin.

As we've seen, Air Canada's business is not likely to recover to its pre-pandemic levels for several more years. In the meantime, things are likely to get significantly worse. So while it might be painful to do so, it's not too late to sell Air Canada stock.

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