



Will Air Canada (TSX:AC) Stock Reach \$10 Before it Touches \$30?

Description

The COVID-19 pandemic continues to play its part, as the global populace and businesses are grappling with higher unemployment rates and tepid consumer demand. Several sectors have been decimated in a matter of a few months with the airline sector on life support.

With governments grounding domestic flights and closing borders, this capital-intensive industry is burning cash like never before and shares of **Air Canada** ([TSX:AC](#)) have been pummeled in the first half of 2020.

Air Canada stock was trading at a record high of \$52.71 at the start of 2020 and fell to a multi-year low of \$9.26 when markets turned bearish. It has since partially recovered to currently trade at \$16.84 per share. So, is Air Canada stock on the road to recovery, or will it continue to be range-bound in the next few months?

Why is Air Canada stock a risky bet?

In April 2020, noted investor Warren Buffett surprised Wall Street when he liquidated his position in the largest airline companies south of the border. The Oracle of Omaha confirmed that he made a mistake in entering an industry that has been traditionally risky and volatile, as it is exposed to international shocks and related uncertainty.

While one of the world's most famous investors is no longer bullish on airlines, should you follow suit and exit this sector? Well, let's look at the downside of investing in airline stocks right now.

Air Canada and peers do not expect a recovery in air traffic given people are delaying their travel plans indefinitely amid the pandemic. This coupled with a sluggish economy will continue to weigh heavily on Air Canada. The country's leading airline, in fact, conceded that it might take up to three years for air traffic to reach pre-COVID-19 levels.

Further, the pandemic will most likely spark a global recession, and the tourism and hospitality industry are generally the worst hit in an economic slowdown. Air Canada stock is trading 68% below its record

high, and investors can expect volatility in the second half of 2020 as well.

What's going right for the company?

I am not complete bearish on Air Canada stock, as it has been one of the top performers on the TSX in the last decade. Air Canada has enough liquidity to tide over the ongoing crisis.

Recently, Air Canada announced it was halting flights on 30 domestic routes due to weak demand, [disappointing](#) Prime Minister Justin Trudeau. It is also closing eight stations at regional airports, which will help the company lower costs.

Air Canada has saved closed to \$1.1 billion via cost reductions and capital deferral programs since the start of the pandemic. It reduced employee strength by 50% and [permanently removed](#) 79 aircraft from its fleet.

However, as seen above, investing in Air Canada stock right now carries a significant amount of risk. Air Canada expects its capacity to decline by a massive 75% in Q3 year over year, and it lost a staggering \$1.05 billion in the last quarter.

For investors with higher risk exposure, Air Canada stock remains an enticing bet given the company's leadership position in Canada, low valuation, and historical performance in the past decade.

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