



Could Air Canada (TSX:AC) Stock Soar to \$50 by Year-End?

Description

[Young, risk-taking investors](#) love airline stocks like **Air Canada (TSX:AC)**, but with Warren Buffett ditching his entire stake in the U.S. airlines, is it still a good idea to pile into the stock as it looks to rebound from the unprecedented coronavirus crisis?

There's no question that a name like Air Canada could have a multitude of upside in a bull-case scenario. The highly profitable and operationally-efficient airline could be right back to where it was before 2020 if we're due for the advent of an effective COVID-19 vaccine. But the bear-case scenario with the airlines could entail a price target of \$0.

Whether a name like Air Canada will soar to \$50 or collapse to \$0 or the single-digits is anyone's guess. However, if you're looking to play a broader range of possible outcomes, and not just the two extremes, I think young investors are smart to bet on a liquid airline such as Air Canada, as long as they're not betting the farm!

If you've got the stomach, Air Canada's risk/reward may be too good to pass on at these depths

Air Canada may seem like an [all-or-nothing bet](#). But given the wide range of outcomes and management's progress in battening down the hatches, there's a good chance that the airline could survive the COVID-19 onslaught largely on its own.

Some pundits see a vaccine being approved in the latter part of the year. Others think a vaccine could be much farther off. In any case, such an event could send Air Canada stock up by high double-digit percentage points in a potentially sustained rally to pre-pandemic heights.

Of course, betting on an exogenous event isn't without its risks. It's tough to form an accurate gauge of the vaccine development timeline. Promising vaccines could disappoint later on, and there's a chance that no progress could be made for extended periods, which could apply further pressure to airline stocks.

If you've got the stomach for excessive volatility, though, Air Canada looks to have a pretty decent risk/reward trade-off for those looking to bet on the economy's return to normalcy. The Canadian airline was on solid financial footing heading into this pandemic, having not spent nearly as much on share repurchases over the years relative to some of its peers south of the border.

And in recent months, the airline has continued to bolster its liquidity position, providing it more time to wait for a vaccine than most other major commercial airlines that could find themselves flirting with bankruptcy if a vaccine doesn't land by year-end.

Air Canada: Arguably the best airline stock to bet on because of its solid balance sheet

If I were to bet on an air travel rebound, Air Canada would be my top bet and not just because it's a Canadian company. The firm's liquidity position is solid, and it has a below-average amount of leverage. Even if a vaccine weren't to land until late next year, I still think Air Canada will be hanging in there, as its peers crumble under the mounting pressures.

Management has done a great job of reducing cash burn. Although there's a profound amount of uncertainty relating to this pandemic, there's a good chance that Air Canada stock could prove to be severely undervalued at this juncture, given the full range of possibilities.

Foolish takeaway

While Air Canada could flop to the low single digits, punishing investors who've attempted to bet on the air travel rebound, the risk/reward to be had in the name is far better than most other frothy tech stocks in the market that have surged over 100% in recent months.

As such, I view Air Canada as more prudent speculation (heck, maybe it's even a deep-value investment) relative to most other momentum stocks out there today.

As for whether Air Canada can surge to \$50 by year-end, I wouldn't rule it out if a bull-case scenario plays out with this pandemic and an effective vaccine lands this year.

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