
# Air Canada (TSX:AC) Stock: $0 or 100% Returns?

## Description

**Air Canada** (TSX:AC) is currently on its way to a slow, protracted recovery. The country is reopening, maybe not at a pace that Air Canada's management would have liked, but it's getting there. Slowly and gradually, the people will start regularly flying again, and the flights (both international and local) would become fuller than they are now.



That's the hopefully realistic course of events that is likely to take place if there is no other catalyst thrown in the mix. Those catalysts can be positive to Air Canada, such as an effective vaccine that can change the whole world's attitude towards COVID-19, or harmful like a powerful second wave of the pandemic.

## Double or nothing

When it was at its peak, investors who had Air Canada in their portfolios have already sustained enough losses. And if they haven't sold their stake in the company yet, waiting and hoping for a better valuation to mitigate their losses seems like the most reasonable course of action.

But it's not the same for buyers that bought into the company when it hit rock bottom or investors that are considering buying Air Canada now. They are playing a double or nothing game. If the company actually manages to ride the positivity wave and start operating at nearly the full capacity *before* its predicted schedule of two to three years.

If that happens, then the stock that's currently $17 per share, might hit $34, resulting in a full 100% growth. But how things are going, it seems too optimistic, especially if investors are hoping for it to happen in a few months.

Bankruptcy and the stock hitting $0 per share is also a very real, but a distant possibility. The company did everything it could to build and hold on to a cash reserve that would be its lifeline until its operations start earning enough.

The international travelling that Air Canada heavily relies upon has started to open up, and the situation of the company's situation seems much better than the airlines across the border.

## What are the odds?

The odds of bankruptcy are lower than the odds of a slow recovery, but higher than the stock offering investors a 100% return. There are talks of another recession and another sharp decline in the stock market can push Air Canada's valuation into single digits. That might not result in a bankruptcy, but it will delay the recovery even more.

Government intervention is another variable to consider. If the company has to tap into its precious reserves to entertain the refund requests, it may need a government bailout to survive. And while this situation would steer Air Canada away from bankruptcy, it may also reduce the possibility of the stock doubling up, especially if the stock is diluted even more.

## Foolish takeaway

If you are willing to play the long game, you may want to consider Air Canada. The stock might not be this cheap for several years, and even if it recovers slowly, the company has the potential to offer fantastic growth when it's standing on solid ground.



But there is also a possibility that the pandemic has weakened the company too much for it to display its normal growth, even when operational activities usually resume.

**CATEGORY**

1. Investing

**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

**Date**
2025/07/08
**Date Created**
2020/07/25
**Author**

adamothman