



Here's a Shocking 10-Year Prediction for Air Canada (TSX:AC) Stock

Description

When was the last time you took an **Air Canada** ([TSX:AC](#)) flight or even flew anywhere? In your answer lies the future of AC. The AC stock went from \$50 to \$15 in the first three months, and its revenue went from \$4.7 billion to \$500 million in the [second quarter](#). It's not just the AC's planes that are grounded, but also its business and stock price.

AC grounded 92% of its capacity in the second quarter as international travel restrictions have been extended until August 21. Even for the third quarter, it plans to reduce its capacity by 80% compared to the previous year. For the entire 2020, it will operate at just a fraction of its capacity. In this one year, it will burn more than four years of profits.

Air Canada prediction for three years

One thing is certain: AC stock will not take flight this year. Any growth will only come next year. But I am highly skeptical about that too. Many North American airlines expect air travel to return to pre-pandemic levels in three years. But this forecast is based on the assumption that the worst is over. There won't be a second wave of the pandemic, and international air travel restrictions will start to ease this fall.

If the above two assumptions come true, AC will first see an increase in demand for domestic leisure travel, then international leisure travel. The business travel, both domestic and international, will be the last to recover. In the case of AC, it earns around 70% of its revenue from international travel. Most of the profit comes from international flights.

10-year prediction

While three years is a rough estimate, it could take longer depending on how the coronavirus situation progresses. AC is already prepared for the worst; it's reducing its fleet size by 30%, and the workforce by 50%. The airline has also slashed 30 of its regional routes. Some of these changes are permanent and some are temporary. But such a high level of downsizing shows that air travel could take a longer

time to recover.

Let's be optimistic and believe that air travel does resume to the pre-pandemic level in three years, AC will not return to profit for another 10 years.

Back in the [2002-2003 SARS epidemic](#), AC reported a net loss of \$1.9 billion. Such heavy loss pushed the airline to bankruptcy and it took the company 10 years to return to profit. The stock only started to grow in 2013, when it reported profits.

Before entering the COVID-19 crisis, the airline had significantly strengthened its balance sheet. Hence, it has still not gone bankrupt. Its 2020 losses will cross \$4 billion, which is equivalent to its last four-year profit.

Moreover, it has raised \$5.5 billion in capital through debt and equity and is willing to raise more. Even if I make an optimistic prediction, AC stock will take seven to 10 years to return to growth.

Don't wait for Air Canada stock to take flight

A decade-long wait is futile. In the investing world, it entails a huge opportunity cost. If you had invested \$10,000 in AC 10 years back, today its value would be \$62,000. But if you had invested the same amount in **Cargojet** ([TSX:CJT](#)), your money would have grown to \$210,000. Here, investing in AC has cost you \$150,000 in a lost opportunity.

Unlike AC, Cargojet is more resilient to the economy as it caters to international logistics. As long as international trade is not hampered, Cargojet will continue to grow. The growth of e-commerce is accelerating its operations. During the pandemic-driven lockdown, a surge in e-commerce deliveries drove Cargojet's revenue by 65% in the second quarter.

So far this year, Cargojet stock rose by 80%, while AC stock fell by 70%. Instead of wasting 10 years in AC, invest in Cargojet and grow your money by 2,000%.

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