



When Will Air Canada Stock Surge to \$30?

Description

Air Canada ([TSX:AC](#)) stock is a roller coaster. This year, shares have fallen by 70%, down to just \$16 apiece.

Of course, the [coronavirus](#) is to blame. For eight consecutive years, Air Canada was a millionaire-maker stock. Only a global pandemic was capable of taking down this winning investment.

But what now? AC stock hasn't been on sale for nearly a decade. Even a small reversion to the mean would result in a *double* to \$30 per share. Many investors are betting that this scenario will become a reality.

When will Air Canada shares hit \$30?

Here are the facts

The first quarter was rough for all airlines. Traffic fell off a cliff. It was the most disruptive period in the history of aviation.

Air Canada was not spared. It lost \$1.05 billion in the first quarter compared to a profit of \$285 million the year before.

"No adjectives can adequately describe the pandemic's cataclysmic effects upon our industry, nor can numbers fully quantify the extent of financial devastation," CEO Calin Rovinescu stressed. "We're now living through the darkest period ever in the history of commercial aviation, significantly worse than the aftermath of 9/11, SARS, and the 2008 financial crisis."

The second quarter was no better. Air Canada continued to lose roughly \$20 million *per day* in April, May, and June.

"Air Canada's second-quarter results confirm the devastating and unprecedented effects of the COVID-19 pandemic and government-imposed travel and border restrictions and quarantine requirements,"

Rovinescu [added](#) this quarter.

“Canada’s federal and inter-provincial restrictions have been among the most severe in the world, effectively shutting down most commercial aviation in our country, which, together with otherwise fragile demand, resulted in Air Canada carrying less than 4% of the passengers carried during last year’s second quarter,” he concluded.

Should you bet on Air Canada stock?

Warren Buffett often stresses that you should buy when others are fearful. This certainly seems like a perfect example to deploy that wisdom.

But there’s a critical difference here. Yes, the market is fearful. That’s why AC stock is down 70% year to date. In this scenario, however, it’s a lack of *visibility* that keeps airline stocks low.

Even Warren Buffett understands that fear from uncertainty should be taken seriously. Last year, he was a leading shareholder of four different airlines. Earlier this year, he sold *everything*.

The stark reality is that we don’t know when the airline industry will normalize. As mentioned, Air Canada’s passenger traffic was down 96% last quarter, with no end in sight! Polls show that 85% of Canadians prefer travel restrictions to remain in place through the end of the year.

The math here just isn’t pretty. Air Canada claims it has \$9 billion in liquidity left. That’s 24 months *maximum* at the current burn rate. Realistically, the company has 12 months for the market to turn around before bankruptcy becomes a serious risk.

Most airline CEOs don’t envision a return to normal until a vaccine is discovered, approved, manufactured, scaled, distributed, and applied worldwide at mass scale. Even if a vaccine is discovered *today*, the entire process could take more than 12 months. That’s time that Air Canada simply doesn’t have.

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