



## Air Canada (TSX:AC): A High-Upside Bet for Young Investors

### Description

**Air Canada** ([TSX:AC](#)) is too speculative for Warren Buffett to own amid this [pandemic](#), but that doesn't mean you should avoid shares too, especially if you're a young long-term investor who has a strong stomach.

Indeed, there is a [wide range of possibilities](#) with this pandemic. Many health experts agree that an effective coronavirus vaccine will be available at some point in 2021. Some optimistic analysts, including those at **Goldman Sachs**, see an approved vaccine landing in the latter part of 2020. Once a vaccine does land, the airlines could correct very suddenly to the upside, as bankruptcy fears fade.

### The bear case with the airlines

In the meantime, many airlines are going to be fighting for their lives. And if most analysts are wrong and a vaccine doesn't arrive until 2022 or later, Air Canada and its peers could stand to decline further en route to zero.

While Air Canada does have a decent liquidity position today, if a bear-case scenario happens with this pandemic, and the world economy is to fall into a depression, even a stellar liquidity positioning won't be able to avert insolvency. There's no telling how long fiscal and monetary stimuli can keep airlines and other zombie companies alive through this pandemic.

Companies can't keep borrowing money forever. If COVID-19 keeps a majority of travellers out of the air for far longer than expected, there's no question that you could lose a majority, if not all, of your Air Canada investment if worse comes to worst. Given the high downside risk, it may or may not make sense to bet on an airline comeback if you're not a fan of volatility or speculation.

With little visibility into the pandemic timeline, airlines remain nearly impossible to value. But if the most likely scenario occurs and we are due for a COVID-19 vaccine in the middle of next year, airline stocks could prove to be severely undervalued right now.

## No surprises here: Air Canada had a rough second quarter

As expected, Air Canada clocked in a brutal second quarter, as it scrambled to raise and conserve cash to buy it time to wait for the advent of a vaccine. The company posted a wider-than-expected net loss of \$6.44 per share, enticing some analysts to lower their targets on the ailing airline. Revenues nosedived almost 89% thanks to a capacity decline that exceeded 90%.

Given Air Canada derives a considerable chunk of its normalized revenues from international flights, the Canadian airline faces an uphill battle on the road to recovery.

Fortunately, Air Canada is doing a great job of reducing operating expenses, which declined over 40% since the last quarter. Cash burn rates are falling, and they're expected to continue dropping into year-end. With a decent liquidity positioning versus its U.S. peers, many of which embarrassingly blew a tonne of cash on share buybacks over the years, Air Canada looks poised to make it out of this crisis under its own power if we get a vaccine in mid-2021.

Moreover, I'm of the belief that the travel industry will rebound a lot quicker than most analysts expect once the masses can get vaccinated. Recession or not, there's likely going to be pent-up demand for air travel once it's finally safe to take the skies. Although the downside risk is massive, I view Air Canada, with its above-average balance sheet, as a speculation bet that's tilted ever so slightly in favour of the investor.

## Foolish takeaway on Air Canada

If you're young, with disposable TFSA cash that's collecting dust in a savings account, it may make sense to nibble on Air Canada, as the upside potential, I believe, more than makes up for the downside risks if you're bullish on the advent of a vaccine by 2021.

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