



Air Canada (TSX:AC): Investor Patience May Be Rewarded Profoundly

Description

Air Canada ([TSX:AC](#)) and the airline stocks are a speculation bet that isn't worthy of Warren Buffett's investment dollars. While the [stakes](#) are undoubtedly high, Air Canada is a bet that's worth taking.

Buffett has to appease risk-averse investors who may not be comfortable with the all-or-nothing proposition that comes with investing in an airline during a [pandemic](#). But just because Buffett has sold out of his stake in the airlines doesn't mean you should follow his lead, especially if you're sitting on paper losses. There's no question that the bear-case scenario with this pandemic is detrimental to the airlines (there will probably be bankruptcies galore if this pandemic drags on past 2021), but if you're willing to stomach the risks for a shot at scooping up what could prove to be a generational bargain, Air Canada is nothing short of compelling, even with the haze of uncertainty that's clouding the recovery story.

Air Canada: Looking into 2021

Many health experts agree that COVID-19 isn't going away anytime soon. It'll likely still be plaguing us next year. I think that the odds of an effective coronavirus vaccine landing between now and the middle of next year is reasonably high. And if the stock market is correct and the economy will recover a tonne of ground next year, with vaccines available for broad distribution, Air Canada, at these depths, is too good to pass on if you're willing to stick around through 2021, especially given management's moves to batten down the hatches.

Before the pandemic, Air Canada and the airlines were wildly profitable. And once this pandemic ends, I think the airlines will be picking up where they left off. Once Air Canada's survival is guaranteed, the focus will move onto earnings growth and the potential for unprecedented quarter-over-quarter growth.

Air Canada looks like a COVID-19 crisis survivor

Given recent capacity cuts, reduced cash burn, and liquidity raises, Air Canada looks better positioned to survive this unprecedented crisis on its own footing. If this pandemic dies down in 2021, Air Canada

will be ready to stage an epic recovery, and its stock could quickly take-off to \$30. And if you're in Air Canada for the long game, 2022 could be even more rewarding if the air travel industry recovers quicker than most pundits expect.

Right now, many people expect an air travel recovery to take many years. There's a severe recession that will take time to heal from, even after COVID-19 is eliminated in most geographies. Given the bar has been set so low for air travel, the stage may be set for a heck of a rebound over the next two to three years.

Foolish takeaway

Of course, to realize potentially outsized gains from Air Canada pole-vaulting over expectations in the distant future, you're going to need to bear an unfathomable amount of risk over the near to medium term. Air Canada will remain a turbulent ride for many months to come, and most investors seeking to make a quick buck will probably end up losing money.

If you're willing to hold Air Canada for years, though, I think the stock makes sense to hold in the "risk-on" part of a COVID-hedged barbell portfolio. Just make sure you're willing to lose your shirt on the name, because the stakes are absurdly high, and a bear-case scenario, albeit unlikely, *is* possible.

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Date

2025/08/02

Date Created

2020/08/14

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