



Will Air Canada Crash Land in 2020?

Description

Yes, I am a bull (generally) on **Air Canada** ([TSX:AC](#)). And yes, I also think Air Canada's stock price could crash further this year.

Air Canada's stock price has already lost significantly more than half its market capitalization this year alone. Thinking this airline's stock price could crash further would require a pretty bearish outlook on the sector. Unfortunately, this is my view.

Great company, terrible sector

Compared to its peers, Air Canada is a value investor's dream. The company is well run. Also, the company is consistently valued at a discount to its North American peers. This is often by a rather wide and unwarranted margin. A recent stress test of the balance sheet strength of major North American airlines (developed in the U.S.) showed Air Canada had the best liquidity ratio among its peers. This is absolutely an impressive feat.

Air Canada has accomplished this through disciplined attention to dealing with its previously onerous debt load, while also [encouraging growth](#). The result has been an airline with decent amount of room to manage through this pandemic, assuming government support is on the way.

The airline sector itself is under extreme stress. Most in the financial community agree that not enough has been done to save jobs in this industry from direct government support. A full bailout of the airline sector would go a long way to stabilizing investor demand for airline stocks. However, it appears such support may be delayed indefinitely.

I think we're about to see more pain ahead for airlines broadly. Unfortunately, Air Canada won't be exempt from this turmoil. This pandemic is likely to result in a long-term decline in air passenger volumes, as more and more discretionary travelers are likely to come back slowly to air travel. This will also hold true for discretionary business travelers who have discovered that virtual meetings are not all bad (and a heck of a lot cheaper).

Timing is everything

Right now, deciding whether Air Canada fits into a given portfolio really depends on the timeline one has. Some analysts believe it will take at least three years for airline volumes to reach pre-COVID levels — some say longer.

I am of the belief that it may actually take longer than three years for the sector to experience a full recovery. This is because I believe a significant amount of damage has been done to demand for business travel and other commuter flights due to the pandemic. I think we're headed for a period of time in which road trips will replace flying for a while. Airlines will ultimately pay the price.

Bottom line

I think Air Canada is an excellent airline to own over the long term for investors seeking a top pick in this sector. That said, I think the amount of damage likely to be inflicted has yet to be fully priced in. I would wait for a sub-\$10/share entry point before considering picking up Air Canada stock in 2020.

CATEGORY

1. Coronavirus
2. Investing
3. Stocks for Beginners
4. Top TSX Stocks

POST TAG

1. airline
2. canada
3. coronavirus
4. Covid

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. Coronavirus

2. Investing
3. Stocks for Beginners
4. Top TSX Stocks

Tags

1. airline
2. canada
3. coronavirus
4. Covid

Date

2025/07/01

Date Created

2020/08/16

Author

chrismacdonald

default watermark

default watermark