



Will Air Canada (TSX:AC) Stock Rise 100% by the End of 2020?

Description

Air Canada ([TSX:AC](#)) stock can rise *50 times* in value. Don't believe me? Just look at its history.

In 2012 shares were under \$1. By 2019, they topped \$50. A \$5,000 investment would have become \$250,000!

The coronavirus ruined the party. Nearly every [airline](#) stock has been slammed, and Air Canada is no exception. Today, the stock trades at \$16 at writing.

Many investors believe the current valuation is an outright bargain. Even if shares were to *double* in value, they'd still be 40% below their former highs.

Air Canada stock fell 70% in a matter of months. Could a 100% rise occur with such speed, perhaps before the end of 2020?

The story is clear

One thing is clear: nothing is clear. Visibility into the future has never been lower for airline operators. Just ask Air Canada CEO Calin Rovinescu.

"This is hundreds of times worse than 9/11, SARS, or the global financial crisis — quite frankly combined," he said. "We never got to the level when we were only operating at 5% in any of those circumstances, you know, other than the three days of shut-down post 9/11."

He concluded somberly: "This is catastrophic territory."

But as Warren Buffett often advises, sometimes it's best to buy when others are fearful.

Right now, Air Canada is operating at 5% of its typical capacity, which is unprecedented. Even a whiff of a return to normal could send shares soaring. Think about it this way: If traffic is 80% lower next quarter compared to history, Air Canada would quadruple its passenger revenues!

Will Air Canada stock double?

Business really can't get worse. Neither could sentiment. These are exactly the conditions necessary for a quick double.

But the ability for a stock to double in price doesn't necessarily make it a worthwhile investment. What if there's a 1% chance of doubling, and a 99% chance of bankruptcy? Few would take that bet.

To determine the odds of doubling, we first need to determine the odds of absolute failure.

Last quarter, Air Canada lost more than \$1 billion. The quarter before that, losses also totalled more than \$1 billion. With 85% of Canadians preferring travel restrictions to remain in place, and passengers with COVID-19 [continuing](#) to enter the country, we should expect another major loss in the coming quarter, possibly throughout the end of the year.

Air Canada recently stressed that the company has \$9 billion in liquidity. That's less than 24 months of runway. In some scenarios, the company has *less than four quarters* to stem the bleeding.

Are you willing to bet that the world will return to normal within 12 months? I'm not. That means the risk of bankruptcy for Air Canada is uncomfortably high.

Let's say the company pulls some emergency funding levers and is able to survive? What then?

"The sad reality is that unless airlines raise new capital, they will go bankrupt," says Vitaliy Katsenelson, CIO at Investment Management Associates. "This capital, though it might save them, will reduce the value of their businesses. Equity issuances would permanently dilute shareholders, as future earnings will be shared with a much-increased shareholder base."

Yes, Air Canada stock can double in value, but the more likely future is that shares will *decline* in value, potentially as low as \$0. Now is not the time to take a bullish bet.

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