



Air Canada (TSX:AC) Stock: Your Chance to Make \$1 Million?

Description

Air Canada ([TSX:AC](#)) stock can make you a millionaire. From 2012 to 2019, shares rose *50 times* in value. A \$20,000 bet would have become \$1 million.

The coronavirus ruined everything. In early 2020, passenger traffic fell off a cliff. Airlines around the world cut capacity by nearly 100%. Planes were flying empty.

For a while, investors thought that business travel would bail the industry out. Those hopes turned out to be [baseless](#). Airline stocks are now more than 70% off their highs. Several operators have already gone bankrupt.

Air Canada shares have not been spared. At the start of 2020, the stock traded at \$50. Shares are now priced at \$16.

If the airline industry recovers, AC stock would rise nearly 400%. There may be even more upside considering the company can take additional market share from its struggling competitors.

Is this another opportunity to make \$1 million by investing in Air Canada stock?

Here's the bet

When the pandemic first hit, Warren Buffett was unfazed. That was telling considering he was a leading shareholder of *four* different airlines.

"I won't be selling airline stocks," he [said](#) in March. "Well, it's going to be terrible. I've always felt a pandemic would happen at some time," Buffett added. But in the end, he didn't believe the pandemic would "stop the progress of the country or the world."

At the time, Air Canada stock traded at \$25 — *70% higher* than current levels. If you trusted Buffett and held on to your shares, you would have been disappointed.

Two months later, Buffett abandoned the entire industry, selling 100% of his airline stakes. His opinions had changed dramatically.

“The airline business — and I may be wrong and I hope I’m wrong — but I think it’s changed in a very major way,” Buffett warned. “The future is much less clear to me.”

This is the issue that plagues the industry today: a lack of visibility. Air Canada executives say it could be three years before traffic returns to normal. Manufacturers like **Airbus** and **Boeing** anticipate a five-year time frame. Other airlines think demand will be permanently smaller.

No one knows the future. Is the lack of visibility creating opportunity?

Invest in Air Canada?

Let’s do the math. Last quarter, Air Canada lost more than \$1 billion. The previous quarter, losses also totaled more than \$1 billion. With a market cap of \$5 billion and total liquidity of \$9 billion, the clock is ticking.

Unless conditions turn around rapidly, the company will need to raise a boatload of money over the coming quarters. Even if the business survives, current shareholders may not benefit.

“The sad reality is that unless airlines raise new capital, they will go bankrupt,” cautions 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.”

This is the best-case scenario for Air Canada right now. To survive, massive stock and debt issuances need to be made. That will eliminate all of the potential upside for current investors.

CATEGORY

1. Coronavirus
2. Investing

POST TAG

1. Editor's Choice

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

Tags

1. Editor's Choice

Date

2025/07/02

Date Created

2020/08/21

Author

rvanzo

default watermark

default watermark