



## How Long Will Air Canada (TSX:AC) Stock Take To Double Your Money?

### Description

So when will AC stock grow?

## COVID-19 pandemic – the biggest crisis of the airline industry

The COVID-19 pandemic is by far the biggest crisis the airline industry has ever seen. The industry saw three major crises in the last 20 years:

- the 9/11 attack
- the 2002-03 SARS epidemic
- the 2009 financial crisis

Most airlines, including AC, have declared bankruptcy at least once in these 20 years.

Learning from these crises, AC strengthened its balance sheet during its growth years (2013-2019). By the end of 2019, it increased its liquidity to \$7.38 billion and almost halved its net debt to \$2.84 billion. However, the pandemic washed away AC's years of profits and increased its net debt. In the first six months, the airline lost \$2.8 billion and increased its net debt to \$4.6 billion. How did all this happen?

## International skies are still empty

In March, the Canadian government banned international travel and announced a nationwide lockdown, grounding almost all planes of AC. The airline reduced its capacity by 92%, which reduced its revenue by 87% in the [second quarter](#). While domestic travel has restarted, there are some interprovincial restrictions.

As far as international travel goes, the government has extended the U.S.-Canada travel restriction until September 21. AC earns 22% of its revenue from the flights to the U.S. It depends on international travel for 70% of its revenue. With international skies still empty, it is barely keeping its operations alive.

It is burning around \$15-\$17 million cash every month to keep its planes fit for flying. It plans to reduce its capacity by 80% in the third quarter.

## When will Air Canada planes take flight?

International travel is the reason why COVID-19 became a global pandemic. AC CEO Calin Rovinescu has made a distress call, urging the government to ease travel restrictions.

The non-essential international travel could start by the end of the year if there is no second outbreak of the pandemic. The leisure travel will resume first, and if things don't get ugly, business travel will resume. AC forecasts three years for international travel to return to the pre-pandemic level. This period is subject to the status of the coronavirus vaccine.

AC is doing everything to reduce its cash burn and prevent bankruptcy for these three years. It has over \$9 billion in liquidity. It has halved its workforce and reduced its fleet size by a third. The airline's loss could cross \$4 billion this year.

In April, I saw [a bankruptcy looming for AC](#). But looking at the above efforts, I believe the airline can avert bankruptcy. Probably, that is the reason why AC stock has not declined below \$15.

## How long until Air Canada stock doubles

Since the March sell-off, which swept away 75% of AC's valuation, the stock is hovering between \$15 and \$20. Thus represents a 33% upside and 25% downside. Speculators are making money from AC by trading around the \$15-\$20 volatility.

AC stock started the year at \$50. How long will it take for the stock to reach that level again?

If I look at the history, it took AC 10 years (2003-2013) to recover from the SARS pandemic. But when it did, its stock rose fourfold in a year. Although AC is financially stronger than it was in 2003, the COVID-19 pandemic is bigger than the SARS epidemic.

The next three years will determine whether or not AC can avert bankruptcy. It is only in 2024 that it will see some significant recovery and another six to seven years to return to profit.

AC stock will grow after 10 years, and when it does, it will more than double in a year. Hence, it would be better to invest in the stock when it takes flight.

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pujatayal

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