



Air Canada Stock: Get Ready for Something Big!

Description

Air Canada ([TSX:AC](#)) stock can make you a millionaire. If you'd bought \$20,000 worth of shares in 2012, your capital would have been worth \$1 million by 2019.

Then the coronavirus hit. Travel restrictions were quickly instituted. Flying became a nightmare. Compared to the same time last year, passenger flight traffic is down nearly 95%.

Airlines are high fixed-cost businesses. That means that they need to operate at a high capacity to cover their basic expenses. Now operating at 5% of total capacity, these businesses aren't anywhere close to breaking even.

Air Canada stock has responded to the pain. Shares now trade at \$17 — a 70% discount to their former highs. The stock could *triple* if conditions completely normalize.

There's no doubt that there's something [huge](#) in store for this company. Expect the stock to move wildly over the next 12 months.

Here are the facts

Let's get the hard news out of the way. Last quarter, Air Canada lost \$1.7 billion. That's concerning considering its market cap is just \$5 billion. At this rate, the company will generate losses greater than the company's entire value within nine months.

To be fair, the company only lost \$1 billion the quarter before, which means it could have up to 15 months of runway, but that's not much of a consolation.

If you listen to Air Canada's executives, you'd expect a turnaround to be just around the corner. Management has reiterated that they see the start of a recovery occurring, and that they're doing everything possible to shore up financing. One of their favourite talking points is to note the company's \$9 billion in liquidity.

Yet it's still very unclear whether the company will survive. It's basic math. Polls show that 85% of Canadians want travel restrictions to remain in place through the end of the year. If we get another surge of COVID-19 this winter, expect 2021 flight demand to remain significantly depressed.

Air Canada will continue to sell stock and issue debt, but every quarter that goes by, long-term shareholders will see their potential gains diluted.

Should You bet on Air Canada stock?

Isn't this the time to buy? There's blood in the streets, and Warren Buffett often urges investors to be greedy when others are fearful. Unfortunately, it's not that simple.

At the start of 2020, Buffett was a leading shareholder of four different airlines. Today, he owns zero. He recently revealed that the industry has likely changed forever, and uncertainty rules the day.

Many investors are betting on a rebound for Air Canada stock. That would lead to 200% upside or more. The more likely scenario, however, is that the company goes bankrupt.

Even if Air Canada can continue to raise capital over the next 12 months, the dilution will wipe out any upside for current investors.

"The sad reality is that unless airlines raise new capital, they will go bankrupt," [warned](#) 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."

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