



Air Canada (TSX:AC) Could Skyrocket Into the Stratosphere — But There's a Catch

Description

Amid the [coronavirus disease 2019 \(COVID-19\) crisis](#), **Air Canada (TSX:AC)** stock looks to be the epitome of an all-or-nothing bet. The once-profitable airline is dealing with the worst crisis it's faced during its time as a publicly-traded company. While management has done an impeccable job of improving its chances of surviving the crisis, the ultimate fate of the company largely depends on the outcome of the exogenous event that is the COVID-19 pandemic.

If an effective vaccine breakthrough happens, Air Canada stock will soar multitudes higher. The surge could have the potential to be so sharp that people trying to get in after the fact will probably be too late for take-off. However, should this pandemic drags on for years, with no vaccine or a natural exhaustion of the virus via herd immunity, Air Canada stock could be in for a nosedive toward the single-digits en route to zero.

Sounds risky, but is Air Canada stock worth speculating on?

There's no question that such a bet on the outcome of an exogenous binary event is a speculation and not an investment amid these unprecedented uncertainties.

While there may be considerable upside potential, there's a real risk that one could lose a majority of one's investment if a worst-case scenario ends up panning out. That's a huge reason why Warren Buffett bailed on his airline stocks despite the upside potential and why investors should consider how an all-or-nothing speculative bet like Air Canada fits in their portfolios.

On its own, Air Canada stock will be a turbulent ride that's suitable only for strong-stomached investors who understand the full extent of the downside risks.

For investors with a [well-balanced barbell portfolio](#) of pandemic-resilient and pandemic-hit names, though, Air Canada can be a solid name that could bolster the portfolio's overall risk/reward trade-off, as I believe there's a high probability that the company will survive to see better days. Of course,

there's a chance that I could be wrong, especially if the worst of this pandemic is still ahead of us.

Air Canada stock: What about valuation?

If it turns out that this pandemic ends in two years, Air Canada stock could prove to be severely undervalued here. At the time of writing, shares of the Canadian airline trade at 2.4 times book value, a low price to pay for a company that was gushing with cash over a year ago.

In the years following the Great Financial Crisis, Air Canada made significant improvements to its operational efficiencies. Such efforts, I believe, will not be permanently lost to this crisis if it makes it out of this pandemic alive. Once it's completely safe to board an airline, Air Canada stock could easily surge to \$46.

For now, Air Canada is a solid bet for the "risk-on" part of your COVID-19 barbell portfolio. Management has done a great job of raising liquidity and conserving cash. However, the airline will struggle in the new normal (possibly more than the movie theatres), especially should the airline be required to block off the middle seat to allow for proper physical distancing.

Without further visibility into the endgame of this pandemic, it's tough to tell whether Air Canada is actually undervalued or another transitory airline on its way out. As such, I view the investment as a triple-or-nothing type of speculative bet that only young, fearless investors should consider making.

Foolish takeaway

If you're able to stomach the turbulent ride and believe the pandemic will end within two years, Air Canada is a compelling buy right now. But please, make sure you balance your exposure to COVID-19 risks because we're probably not out of the woods yet.

You could triple your money with the name, but the catch is you could also lose the entirety of your investment if COVID-19 doesn't abate over the next two years.

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