



Buy Air Canada (TSX:AC) Stock Now Before You Regret It

Description

If you're thinking about buying **Air Canada** ([TSX:AC](#)) stock, you should just go ahead and buy some. Just be cognizant of the risks and your allocation.

What's attractive about Air Canada stock is that it's trading at a cyclical low. A reversion to the mean will mean incredible returns for an investment today.

All investments come with risks, though. The main concerns investors have about the stock right now, of course, are the airline's ability to survive and its negative outlook.

Can Air Canada survive through this pandemic mess?

During the first half of the year (H1), Air Canada's revenue declined by 54% against H1 2019.

The big impact was in the second quarter (Q2). The higher cargo revenue of 18% was a drop in the bucket against lower passenger travel that normally made up about 88% of revenue.

Consequently, Q2 ended with an eye-popping revenue decline of 89% versus Q2 2019. It can't be helped. There was much lower travel demand due to COVID-19. The government-imposed travel restrictions also weighed on the industry. Unfortunately, it was a needed measure to minimize the spread of the virus.

Thankfully, Air Canada was able to boost its liquidity to \$9.1 billion at the end of Q2. Its elevated liquidity was 23% higher compared to what it had at the end of 2019.

Simultaneously, management also cut costs accordingly by reducing its workforce, including major management. As well, Air Canada is permanently retiring 79 aircraft, which represented 30% of its fleet. Air Canada should therefore emerge from this super challenging period with a smaller but much more efficient airline company, including a younger fleet.

Management estimates a cash burn of \$1.35-\$1.6 billion in Q3, down from \$1.7 billion in Q2. The lower

cash burn anticipated in Q2 will be from the company's cost-cutting measures discussed above and the assumption that "certain international borders will be reopened, that travel restrictions in a number of markets will be lifted and that passenger demand will continue to improve," as discussed in its [Q2 news release](#).

With Air Canada's boosted liquidity, it can last more than 1.5 years based on the projected cash burn levels in Q3. This deadline will naturally be extended as the air travel demand improves in time.

The outlook

Q2 could be Air Canada's worst quarter this year, as it had to quickly take action to respond to the pandemic situation and cut costs. The company is heading in the right direction and the hope is that its business performance will only improve from here.

Air Canada's stock near-term outlook is highly uncertain. What's certain is the stock will be highly volatile. Give the company a year and it will most definitely be flying more passengers.

The Foolish takeaway

Based on recent numbers, Air Canada can survive another 1.5 years. If the company shows much lower cash burn over the next few quarters, the stock can [rally higher](#) even if it doesn't return to profit yet, because such a development will suggest that it won't be too long before it does.

Currently, analysts have an average 12-month price target of \$21.80 on the stock for nearly 27% near-term upside potential. Over the next three years, it can trade at the \$40 level for almost 133% upside.

Investors who are taking a position should be aware of how risky Air Canada stock is and allocate an acceptable amount of their stock portfolio to it — be it 1% or 2% of the portfolio.

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