



Can Air Canada (TSX:AC) Stock Make You Rich in 10 Years?

Description

AC has been calling on the government to ease border restrictions and the 14-day self-isolation requirement. But Prime Minister Justin Trudeau stuck to the strict restrictions to ensure the safety of the people.

Air Canada calls on the Canadian government to ease border restrictions

AC depends on international travel for 70% of its revenue. But the border restrictions have forced it to cancel flights and ground planes. According to the U.S. Department of Transportation's [July 2020 Air Travel Consumer Report](#), AC had the second-highest refund complaints (1,705) after **United Airlines** (3,215) in May. The rising number of refund complaints has made passengers reluctant to book flights through AC.

AC is burning \$15-\$17 million cash every month just to stay operational when the air travel demand returns. It is slowing its cash burn by reducing its fleet size by one-third, halving its workforce, and cutting several travel routes. The airline has already lost \$2.8 billion in the first half. Although it has accumulated \$9.1 billion in liquidity position to sustain these losses, some of that amount will be due in a year.

AC is growing increasingly desperate every day. In its latest attempt to convince the government to adopt a more science-based approach to border restrictions, AC plans to begin COVID-19 tests of passengers arriving in Toronto on September 7.

It has collaborated with Cleveland Clinic Canada, BlueDot, and Spartan Bioscience to explore rapid COVID-19 testing procedures at the airport. With no vaccine in place, testing is the best way to resume air travel and ease border restrictions while mitigating the risk of the second wave.

Can the cash-burning Air Canada make you rich?

International travel is gradually returning. Last week, AC resumed some flights to India. However, the airline is still burning cash. In its heyday, it spent 90% of its revenue on operating expenses. Now with 90% of its revenue slashed, it will continue to burn cash even after its planes take the international skies.

In 2002 to 2003, AC grounded 60% of its capacity to Asia because of the

In 2013 alone, AC stock surged fourfold. Those who jumped into the stock rally in 2013 made equally good profits than those who held the stock during its low. If you had invested \$10,000 in AC in 2013, your money would have grown to more than \$200,000 before the pandemic.

There is no doubt that AC has the potential to make you rich — but it will take seven to 10 years.

A 10-year wait

Warren Buffett said, “Buy that stock in which you want to stay invested for 10 years.” So why didn’t he give airline stocks a 10-year time frame to recover? Because these 10 years include a huge risk of bankruptcy and little to no growth.

Looking at AC’s current fundamentals and the market environment, the airline can [delay bankruptcy for three years](#). But if international travel does not show significant growth, bankruptcy could be in the cards. Fitch has already downgraded AC’s long-term rating to “BB-”.

Investor corner

If AC successfully averts bankruptcy in the next three years, it could return to profit in six or seven years. These 10 years involve a lot of uncertainty.

In these 10 years, you will lose out on the opportunity to double or even triple your money with a quality growth stock that generates a 15-20% average annual return.

Rather than staying invested in AC for a decade in hopes of recovery, you can invest when it shows signs of growth. This way, you can enjoy the multiple fold growth without losing out on existing opportunities.

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