



Is Air Canada Stock on the Verge of Breaking Out?

Description

Air Canada ([TSX:AC](#)) stock really feels like an “all or nothing” kind of bet these days. And as a writer and analyst for Motley Fool Canada, I mostly stay away from recommending this type of stock. I favour stocks with strong risk/reward trade-offs instead. Trade-offs that minimize risk while maximizing the potential reward.

But today, I’m wondering whether Air Canada stock is about to break out. [We are slowly entering a different phase of the coronavirus crisis](#). Schools are reopening in September, and shops and malls are open and are chugging along. While we must all still practice the many virus prevention strategies, life is resuming.

Air Canada stock has rallied 6.4% in the last five days. More than six months into the coronavirus pandemic, is Air Canada stock on the verge of breaking out?

Air Canada continues to bleed money

Travel has been one of the most affected industries. And with travel bans and coronavirus worries still rampant, Air Canada continues to bleed money. When this is the state of any company, we know that the stakes are high.

Throughout all of this, we can at least say that Air Canada is at least handling what is under its control well. Management is working hard to reduce its cash burn. In the latest quarter, the company was burning through \$19 million a day. The company expects this to improve by up to 21% in the third quarter. It is welcome news and a testament to the quality of Air Canada’s management team.

With \$9.1 billion in liquidity, Air Canada has bought itself some time. Recent financings have been received well but the longer this lasts, the greater the risks of further dilution and even bankruptcy.

Air Canada continues to call for easing of travel restrictions

Air Canada continues to urge an easing of travel restrictions. The company is of the opinion that flying is not as risky as most of us think. The company has invested in their air filtration systems, cleaning procedures, and much more. And it is now mandatory for passengers and crew to wear masks.

When travel restrictions are lifted, air travel will not be the same as it once was. The whole experience, from start to finish, will be different. But it will still be an experience that we will once again enjoy. Famed investor Warren Buffett sold his stake in Delta Airlines when this pandemic began. This was clearly a smart move. At Motley Fool, many of us have also been of the opinion that Air Canada is too risky.

But today, things are different. [The coronavirus crisis may be closer to the end than the beginning.](#) Economies are continuing to open. We are learning the best prevention measures to take to control the virus. And a vaccine is closer than ever before. Air Canada stock will rally well before its financial results improve. Expectations are what's important here. [As the fear subsides, the stock will begin to rally.](#)

Motley Fool: the bottom line

There are plenty of reasons to stay away from Air Canada stock even in the best of times. The airline industry is a capital-intensive business. It is highly unionized and it is highly cyclical. Today, it is the worst of times.

Air Canada stock is trading on fear and worse case scenarios. But if we are on the cusp of learning how to live safely with this virus and better yet, a vaccine, then Air Canada stock will roar back soon. Tread with caution.

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