



Air Canada (TSX:AC) Stock: Time to Make a Tough Choice

Description

Air Canada ([TSX:AC](#)), the company that was in many investors' top 10 choices for a growth stock, up until seven to eight months ago, has become the company that many investors can't wait to get rid of. Many are waiting for the stock to grow a bit more so they can mitigate their losses. Some investors are afraid of further stock dilution or government intervention that can weaken the stock even more.

Then there are investors that don't have Air Canada in their portfolio and are wondering whether to take advantage of this amazingly low price. The company has proven itself to be a growth monster in the past. If it can do that again, investors can maximize their returns by buying into the company when it's brutally discounted.

Some win-big-lose-big investors who may already have Air Canada in their portfolio may also consider buying more. It might be a risk, but if they originally bought into the company at its prime, buying a similar number of shares might even things out for them, if they sell it after a partial recovery.

That's the tough choice investors facing right now — whether to buy or to sell Air Canada?

The stock

The stock is decimated. It's trading for \$17 per share and has been gaining a bit of upward momentum since last week. The current 14-day RSI is 54.3, and while it's dead within range, it shows that the stock isn't as dead in the water as some people assumed. People are still banking on the company [making a recovery](#) and betting on Air Canada, even if a bit more prudently.

One thing that the company has going for it is that its unrestricted liquidity is enough to cover its short term liabilities. The bad news is that if the company is forced to pay off all its liability at once, it won't have enough left to absorb the kind of operating loss it suffered in the second quarter.

The refunds, which are becoming a significant problem for the company, are part of its current liabilities. Advance tickets alone made up about 30% of its total current liabilities (As of June 2020).

The company

Air Canada has racked up the second-highest number of refund complaints in the U.S. as a foreign airline. The company is making efforts to get around this issue. As we learned from Air Canada's decision to refund European tickets, the company might start complying to refund requests if the U.S. regulatory authorities intervene.

That will most likely have a domino effect. More people are accepting flying credit because the company is refusing to refund. But if a refund is an option, more people would prefer getting their money back, especially in such trying times, than opt for credit. Then the company will be bleeding out its [precious liquidity](#) even faster. And that liquidity is perhaps the only thing sustaining the company when only a tiny fraction of its usual revenues are coming in.

Foolish takeaway

So should you buy it or not? The answer would be different based on the risk tolerance of each investor, but even the most daring gambler won't bet on a limping horse. But Air Canada isn't limping yet. It's certainly slowing down, but the company isn't an obviously losing bet. Still, I would recommend not buying just yet.

If the refund issue increases momentum and becomes a severe problem for Air Canada, it can push the valuation down even more. If you are going to make a win-big-lose-big bet, you might wait for the best possible price to do so.

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