



A COVID-19 Second Wave Could Hit Air Canada (TSX:AC) Stock Again

Description

Various provinces are seeing an uptick in new COVID-19 cases heading the labour day weekend, with many folks heading back to school and work. Whether this is the start of the second wave is anybody's guess, but with the Vancouver Aquarium shutting its doors once again, one has to think that we could be in for a tough fall season.

Air Canada (TSX:AC) has also been in the headlines again and for all the wrong reasons. With more domestic flights being added to COVID-19 exposure lists and heat from passengers over refund complaints. If we are on the cusp of that much-anticipated "second wave," Air Canada's troubles may begin to mount, and any second-half relief may be postponed indefinitely, as more prospective travellers opt to stay at home to avoid the risk of contracting COVID-19 aboard an aircraft.

A dire warning on the cusp of the COVID-19 pandemic

As you may remember, I [urged investors to sell Air Canada back in December and January](#), well before the novel coronavirus was declared to be a global pandemic, citing valuation concerns and the new slate of risks brought forth by the virus.

"While there's no telling how bad the international coronavirus outbreak could get, Canadian investors would be wise to steer clear of the vulnerable airlines like Air Canada, which could shed a considerable amount of the gains it had posted over the last few years." I wrote back in January.

"Given the airlines are a top disease vector, fears over the spreading coronavirus have the potential pave the way for a massive quarterly miss. While shares of Air Canada have already fallen over 7% on coronavirus-related news, it's worth remembering that the dip is nothing more than a tiny blip when you take a look at the one-year chart. As such, the stock remains overpriced given the new risks that could fuel a 20-30% peak-to-trough decline."

As it turned out, the 20-30% decline I expected turned into a catastrophic implosion, with Air Canada stock losing around 77% of its value from the January peak to the March trough. COVID-19 caused an unprecedented pandemic that plagues the world economy to this day, dragging down not only one Air

Canada quarter but several.

Indeed, even I underestimated the severity of the COVID-19 impact, even though my warnings seemed far-fetched at the time, as the Canadian markets largely shrugged off the threat of the novel coronavirus.

If a second outbreak happens, Air Canada could be headed to the single-digits

While Air Canada stock looks to have formed a technical bottom, I don't think the March lows will hold if we are due for a second wave of COVID-19 cases. A tonne of horrifying headlines will make it very difficult for the airlines to hold above 52-week lows. And while management has made efforts to reduce cash burn rates while raising ample liquidity to survive this crisis, the stock could be headed for another vicious sell-off before any significant upside correction that will likely follow the advent of an effective coronavirus vaccine.

Once Canadians can get vaccinated, Air Canada will recover a lot quicker than most pundits believe, as there could be massive pent-up demand. However, until the risk of contracting COVID-19 is mostly eliminated, I don't think Air Canada stock will be able to sustain a rebound.

If you're looking for a quadruple-or-zero type of [high stakes bet](#), Air Canada is the horse to bet on. Personally, I'd much rather wait for the stock to plunge into the single-digits before considering initiating a contrarian position. Given the risk of a second wave, such a single-digit entry point may not be too far off.

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