Air Canada (TSX:AC) Stock: Could It Skyrocket Soon?

Description

Air Canada (TSX:AC) has been a volatile stock in 2020. Unfortunately, Air Canada and the airline industry in general, have faced the full brunt of the COVID-19 crisis. In just one month, 90% of Air Canada's normal passenger volumes disappeared. In only a few weeks, its stock lost more than 65% of its value from all-time highs set in January.

Consequently, many investors have begun to speculate that Air Canada stock could be setting up for a massive "skyrocket" recovery. However, investors looking for quick returns need to be cautious for a few reasons.

How can Air Canada stock recover without a vaccine?

First, Air Canada's stock will probably be challenged for longer than any of us anticipate. Coming from someone who recently flew from Europe to Canada, I have zero interest in future international travel.

With travel rules, quarantine regulations, health concerns, and difficulty securing flights (I had three different cancellations), it is neither convenient nor enjoyable to fly right now. Air Canada had a large international business, yet federally regulated travel restrictions have strongly inhibited Air Canada's higher-margin international routes from operating.

That brings up my second point: Air Canada is burning between $15 million and $17 million in cash per day. Last quarter it had a $1.7 billion loss. That is no small sum – and that's after halving its work force, reducing overall flight expenses, and cutting out low volume routes.

While it can continue to cut back expenses, the only way to ultimately stop the bleeding is to see some semblance of regular passenger volumes return. Given the length of time it takes to develop and distribute a vaccine, that recovery process could take years.

Air Canada may never be the same stock as in 2019

Finally, Air Canada has had to bolster its balance sheet by adding $5.5 billion in new debt, equity, and aircraft financing, which has a dilutive effect to earnings. Further, its growing debt service expense could seriously challenge its ability to increase profitability. As a result, it may never return to the same levels of profitability per share it enjoyed in the pre-COVID-19 world.

With this in mind, Air Canada's stock is not investible yet. If there are signs that a vaccine could be quickly deployed, it might become more attractive. However, until that point, I would rather miss on some upside than be exposed to the downside risks in the stock today.

For investors looking for some strong growth, I would encourage them to find stocks that are working right now despite the pandemic.

Let your wealth fly higher with this tech stock

Unlike Air Canada, one stock that is enjoying some pandemic upside is **Enghouse Systems** (TSX:ENGH). The stock is expensive, with a price to earnings ratio of 50 times. That said, it has some secular tailwinds that are significantly boosting earnings growth. Its solutions actually play perfectly into the stay-at-home, work-from-home economy.

Enghouse has a commercial video conferencing solution called Vidyo (not unlike **Zoom**, but with better security features for commercial/institutional clients). I believe this segment will likely demonstrate very strong growth in its upcoming quarter (just consider Zoom's recent +350% quarterly revenue growth).

Similarly, Enghouse has a number of omni-channel, remote customer interaction solutions that are benefitting from more employees operating from home. It effectively enables customer service centres to operate remotely. If work-from-home is the way of the future, Enghouse will be a beneficiary.

Finally, Enghouse provides network solutions that help telecom clients transition over to 5G; 5G will become one of the largest technological transitions of the next decade and could fuel stable earnings growth for many years.

All of these trends make Enghouse a very attractive stock, even at today's price. Investors can speculate on Air Canada's stock recovery, but why bother when you can own Enghouse's runway of growth now — and well into the future?

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Date
2025/07/26
Date Created
2020/09/02
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