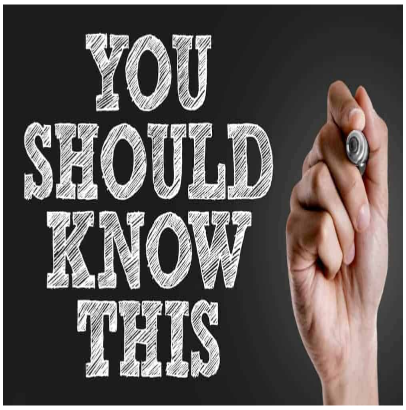

3 Things Every Air Canada (TSX:AC) Investor Should Know

Description

Air Canada (TSX:AC) stock is stuck. Everything hinges on what happens with the coronavirus.

COVID-19 devastated airlines. But do you know the true extent of the pain? Last quarter, Air Canada ran at just 4% of its usual capacity!

With shares down 70% from their former highs, many value investors are jumping in. In the past, AC stock delivered 5,000% gains to long-term shareholders.

Is now the time to buy low? Here's what you need to know.

Costs are fixed

This is a high fixed-cost business. That's bad news when revenues dip sharply.

Flying only a handful of customers means losses rack up quickly. After all, airlines still need to maintain their entire fleet, pay their global workforce, and do everything else a major corporation must continue to do.

Last quarter, Air Canada generated a $1.7 billion loss. The quarter before, the business lost $1.1 billion, so losses are still growing. Care to guess what this upcoming quarter will bring? Analysts expect negative EPS of $2.47. That'll be good for another billion-dollar loss.

No company can keep this up forever.

Airline stocks can soar

Past shocks were great times to bet big on airline stocks. Let's review some recent history.

On September 11, 2001, every airline stock cratered. Passenger traffic fell off a cliff. Planes werehalted worldwide.

At the depth of the crisis, **Delta Air Lines** shares were worth just $4. One year later, they had *tripled*. Many competitors experienced the same resurgence. Brave investors were able to make a fortune.

The financial crisis of 2008 presented a similar opportunity. The world worried that carriers like Air Canada would go insolvent. That wasn't the case.

In March of 2009, **Southwest Airlines** stock traded at $6. One year later, the stock price had doubled. Over the next decade, the share price rose *10 times* in value.

The conclusion is simple: crisis can provide opportunity.

Should you bet on Air Canada?

It's always dangerous to say that "this time is different." Unfortunately, that may actually be the case. Just ask Air Canada's CEO.

"This is hundreds of times worse than 9/11, SARS, or the global financial crisis — quite frankly combined," CEO Calin Rovinescu said earlier this year. "We never got to the level when we were only operating at 5% in any of those circumstances, you know, other than the three days of shut-down post 9/11."

The financial impact is clearly different. Never before have airlines shouldered back-to-back multi-billion-dollar losses. The current situation truly is unprecedented.

The only way the current crisis will subside is if travel restrictions are lifted. Air Canada has urged the government to relieve these pressures quickly.

"Canada's federal and inter-provincial restrictions have been among the most severe in the world," Rovinescu stressed.

With polls showing that 85% of Canadians prefer the border remain closed, it's unclear how quickly Air Canada can expect conditions to recover. With only $9 billion in liquidity, the company only has four to eight quarters of runway left.

Owning Air Canada stock today is like holding onto a ticking time bomb. If the coronavirus pandemic doesn't subside within 12 months, it could explode.

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