Why Air Canada (TSX:AC) Stock Will Recover From COVID-19

Description

Air Canada (TSX:AC) is a stock to own for a COVID-19 recovery. When a good vaccine hits the market, it could make the airline stock take off on the charts.

The pandemic's impact on airlines is unprecedented

From broad travel restrictions to the deep drop in demand for air travel, the impact of the coronavirus on the travel industry has been unprecedented. The federal government has introduced a new Flight Plan to navigate the pandemic, which outlines best practices and consistent standards for passengers' health and safety. However, the travel restrictions remain intact, and the federal government shows no signs of easing them.

The airline industry has been decimated by the pandemic and related lockdowns and restrictions, and Air Canada is no exception. The stock has been one of the best performing over the past decade, but the carrier's good fortune has eroded in the economic slump caused by the COVID pandemic.

Air Canada is spending money to survive this pandemic. The company lost $1.75 billion in its most recent quarter, as revenue fell 89% to $527 million for its second quarter ended June 30.

Air Canada had $9.12 billion in unrestricted liquidity at the end of last month, giving it plenty of time and space to get back on its feet. At the same time, the credit rating agency Fitch downgraded Air Canada from BB to negative BB, with Fitch saying the airline will experience a slower-than-expected recovery in 2021.

Air Canada said it carried less than 4% of the passengers it had in the second quarter of last year. CEO Calin Rovinescu called the combined impact of COVID-19 and the restrictions federal and inter-provincial governments of Canada "devastating and unprecedented."

The airline laid off more than 50% of its staff, or nearly 20,000 employees, in its devastating fiscal second quarter of 2020.

The pandemic has hit Air Canada shares like other airlines. From $52 per share at the start of the year, Air Canada stock dropped to $12. Shares haven't regained much ground, as the stock is trading around $18.

Air Canada stock is a long-term buy

Investors should be thinking about buying the stock on the dip for its long-term growth prospects. It will take some time for the leisure and travel industry to recover, so we have to be patient. Companies in the sector are slowly growing, and stocks are starting to increase, which is a good sign.

Air Canada is well positioned for a rebound, as it has a lot of cash in place to keep it going. As the economy recovers and a COVID-19 vaccine becomes available, Canada will ease travel restrictions, and Air Canada stock will be ready for a solid takeoff. There should more people flying a year from now. There will be more domestic flights at first, then Canadians will go to the United States and abroad.

We have reasons to be optimistic, as we're hearing positive news about vaccines and positive treatments. An effective vaccine against COVID-19 is key for a fast and strong recovery. The number of virus cases is also decreasing. If you are patient, you'll make money with Air Canada stock.

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Date
2025/08/24
Date Created
2020/09/04
Author
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