



Where Will Air Canada (TSX:AC) Be in 3 Years?

Description

Air Canada ([TSX:AC](#)) has seen its business [crumble like a paper bag](#) amid this pandemic. Warren Buffett is no longer standing in the corner of U.S. airline stocks, and while he may have bearish expectations for them over the next five years, an all-or-nothing bet like Air Canada is worth making if you've got the willingness and stomach deal with the [turbulence](#) that could last for at least another year.

Don't give up on the airlines just yet

Even **Boeing** CEO David Calhoun has muted expectations for the air travel industry's rebound from the coronavirus pandemic, as he thinks it could take years for the industry to recover to its 2019 levels and believes some airlines could stand to go under amid the crisis.

While there's no shortage of bearish statements about the state of the airline industry today, I'm still in the belief that the air travel industry could bounce back very sharply on the advent of a vaccine.

Unlike other industries such as restaurant operators that have been decimated by the COVID-19 crisis, the airlines stand to see pent-up demand once it's finally safe to hit the skies again without running the risk of contracting COVID-19.

Moreover, it's not just racked-up vacation days that'll fuel the demand for more airline tickets once this pandemic ends. Many people have been apart from their families and are itching to book the next flight to their hometowns.

Indeed, air travel has grown to become more of a staple than a cyclical discretionary over the decades. And had this economic crisis been caused by anything other than a pandemic, I'm confident that Air Canada would not have imploded on itself, as it did in the face of the Great Financial Crisis.

As it stands today, Air Canada is scrambling to cut capacity to reduce high operating costs to improve its chances of surviving this crisis.

What happens to Air Canada in three years from now?

Air Canada has a solid liquidity position after recent raises, but I'm not so sure it can survive a worsening of this pandemic and the lengthening of this new normal. You see, Air Canada may have to follow in the footsteps of its U.S. peers by blocking off the middle seat on its flights to allow for proper physical distancing aboard flights.

That means fewer burns in seats, all while the costs of keeping things sanitized continue to rise. In this kind of new normal, it's pretty uneconomical to run an airline.

Despite falling cash burn rates, Air Canada will be fighting for its life in three years unless we're due for the advent of a vaccine or if the COVID-19 pandemic ends via some other means. The same can be said for Air Canada's peers south of the border.

If, however, a vaccine lands in 2021 and the pandemic can end within the next two years, count me as unsurprised if Air Canada stock returns to its highs by the conclusion of 2022. Assuming we have a vaccine in 2021, I'm a raging bull on the air travel industry's recovery trajectory.

Until there's more clarity with this pandemic, I'd only urge investors to bet the money they'd be willing to lose, as Air Canada and its peers remain a speculative bet given the high stakes and the extreme downside risks in a bear-case scenario.

In short, Air Canada could either be looking at a big government bailout as the stock nosedives into the single digits or shares could be multitudes higher than where they are right now.

Unless you've got a crystal ball that can tell you when this pandemic will end, I'd only invest in Air Canada if your portfolio is well equipped to handle a worsening of this COVID-19 crisis.

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