



2 Reasons Air Canada Stock (TSX:AC) Is a Buy Right Now

Description

Air Canada ([TSX:AC](#)) stock isn't everybody's cup of tea. Despite the astronomical upside potential in a recovery from this [pandemic](#), Warren Buffett is not willing to stick around in turbulent airline stocks with no clarity on what's next with this pandemic. Air Canada is a solid airline that will become extremely profitable again if it can survive this crisis on its own footing.

Air Canada stock could prove to be severely undervalued here if we are, in fact, through with the worst of this crisis. If, however, things worsen and we're due for further shutdowns, Air Canada shares may not be as undervalued as its depressed valuation metrics suggest. And weak-handed investors hungry for a quick buck may be the ones that will be left holding the bag, as Air Canada may very well be a value trap if we're stuck in the "new normal" for longer than many analysts are expecting.

Air Canada stock: An all-or-nothing bet

Like it or not, Air Canada is an all-or-nothing bet. And given the high stakes, shares remain a calculated speculation at best as long as the novel coronavirus is still out there. If you're prepared to bear the risks involved with a name that could cause you to lose a majority of your investment, only then should you consider the stock, regardless of how "cheap" it will become over the coming months.

This piece will have a look at three reasons that fearless young investors should buy Air Canada today and the upside potential in a bull-case scenario with this pandemic that sees the advent of a safe and working vaccine.

The Canadian airline is doing a good job of battening down the hatches

The company's management has done a decent job of reducing cutting capacity to minimize cash burn rates while raising ample liquidity to improve its odds of surviving this crisis. While Air Canada may be in a better financial position than some of its peers south of the border, it's still akin to the best player

on a sports team that otherwise stinks. And until COVID-19 cases abate, the company will be under pressure along with its airline peers.

That said, the company does look better-positioned to survive this crisis, given its solid financial footing and minimal debt-repayment requirements over the near- to medium-term.

Air Canada's earnings potential beyond 2021

There was a reason [Warren Buffett](#) was so bullish on airline stocks before the pandemic. The airlines were wildly profitable thanks to increased operational efficiency, among other positive developments since the fallout of the Great Financial Crisis.

Air Canada had improved upon its business and looked better-positioned to ride out another crisis had it been caused by anything other than a viral pathogen. Unfortunately, the highly profitable airlines are now uneconomical in this pandemic-plagued environment. But once it inevitably ends, the airlines are among the names that have the most to gain.

Moreover, pent-up demand could fuel an air travel recovery that's a heck of a lot faster (possibly a V-shaped recovery) than the muted recovery that many analysts are calling for.

Foolish takeaway on Air Canada stock

If we're due for a vaccine next year, Air Canada is a buy, as long as you've got a balanced barbell portfolio to manage COVID-19 risks. If, however, you think this new normal could last for years, travel restrictions and intermittent shutdowns could cripple Air Canada's business such that not even more liquidity raises could prevent the airline from reaching the brink.

Manage your risks accordingly. Despite the upside, most investors would be best-served steering clear of the name because the volatility could prove to be too much to handle.

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