



Air Canada (TSX:AC) Stock: Should You Buy or Sell in 2020?

Description

Canada's dominant airline never misses to be [headline news](#), although the reports are mostly negative. The year 2020 is a total disaster for **Air Canada** ([TSX:AC](#)) that talks of recovery are getting stale as the months pass. Since the onset of the pandemic, the company is virtually hanging by a thread.

The situation is unfortunate since the airline stock was a high-flyer in 2019. COVID-19 wrecked the airline industry and continues to prevent travel demand from returning. Air Canada is at the mercy of a government that has not acceded to the repeated requests to ease travel restrictions and quarantine requirements.

However, many still believe that Air Canada will recover lost ground in due time. Is the stock worth buying for massive future gains or better to ditch it now before the next quarterly earnings report?

Depressed capacity

Air Canada continues to blow hot and cold in the stock market. After bottoming to \$12.15 in the third week of March, the stock climbed 92.51% to \$23.39 on June 8, 2020. It then sank 35.4% to \$15.11 to close out July. As of this writing, the stock is trading at \$18.30, and the year-to-date loss is 62.26%.

The billion-dollar losses for two consecutive quarters are understandable given that the company operates at just 10% to 15% capacity. Despite obtaining fresh funding to shore up liquidity and cover the losses, management expects to burn \$15 to \$17 million cash in the third quarter.

Meanwhile, the government is still fearful of a COVID-19 resurgence. [Travel restrictions](#) will remain in place until September 30, 2020, to prevent further spread of the disease. Air Canada is begging authorities to reconsider and adopt an evidence-based approach. Some European countries wrote letters requesting Canada to soften its stance.

Practical assessments

Passenger travel demand will eventually return over time, but certainly not soon. Air Canada will keep burning through cash until the government relaxes travel restrictions and quarantine requirements. The airline industry, in general, would like to see clinical trials on vaccine development to accelerate.

Assuming a workable vaccine becomes available globally, you can anticipate travel numbers to rise gradually. However, you can't expect quick returns from Air Canada. The entire airline industry must recover first.

Air Canada CEO Calin Rovinescu admits it will take at least three years for capacity and revenue to return to pre-COVID levels.

One market analyst said the current share price is an attractive entry point. However, the advice is not to bet on Air Canada at all. He said that it's an act of courage if you do. You also have an incredible optimism about the airline industry.

My view

For long-term investors with patience who don't mind Air Canada's cash burn the rest of the year, go ahead and buy or keep the stock. In my view, however, it's better stay away from airline stocks until there's full recovery.

No one knows for the sure how long or when it will happen. I'd instead bring my money elsewhere, particularly in industries with visible growth potentials. Airline stocks might not fly high ever again.

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