



## Why Air Canada (TSX:AC) Stock Is an Apt Pick for Long-Term Investors

### Description

Like many other **Air Canada** ([TSX:AC](#)) naysayers, I was also uncertain about the stock a few months back. During the second quarter, the stock showed no revival signs, nor the travel restrictions were about to ease. However, now there are a few signs that Air Canada stock might be poised for a stable recovery.

### What's next for Air Canada?

Let's try to keep it simple. The flag carrier operated with trivial capacity in the second quarter. The recently extended travel restrictions also signal a similarly weaker performance in the third quarter. However, do you think these travel curbs will remain in, say, 2022?

No! There is an industry-wide [demand to ease travel restrictions](#) and follow a more science-based approach to curb the virus outbreak. Many airlines have warned about a significant manpower cut in case of prolonged travel restrictions. Even the International Air Transport Association (IATA) has [asked](#) the Canadian government to relax travel restrictions for air travel within, to, and from the country.

Many major economies have already eased air travel restrictions. There is a high probability that Canada will follow them and relax those curbs in the fourth quarter of 2020. This will be a huge boost for Air Canada and its peers.

### What if air travel demand remains low?

Let's ponder over a more practical scenario. What if travel curbs are lifted, and air travel demand still remains low, driven by fear and less business travel? This will also be a challenging period for airlines. However, even in this case, Air Canada's operating capacity is unlikely to fall to lows seen in the second quarter. Many consumer polls suggest Canadians have shown a strong desire to fly once they are allowed to.

Importantly, the country's biggest airline Air Canada is notably strong on the balance sheet front and

can survive longer in the lower demand scenario. Besides, Air Canada has ammunition and scale to sustain longer in this unprecedented crisis compared to peers.

Increased testing at the airports is a welcome move from Air Canada. It will help alleviate fear among flyers to some extent. Increased focus on cargo flights amid lower passenger demand will also help normalize the airline's top line.

Interestingly, if you are a long-term investor, you are willing to hold the stock for maybe three, five, or even beyond 10 years. Even in case of the most pessimistic approach, the vaccine will certainly be available in that time frame.

Air Canada stock has fallen from \$52 levels to \$18 at the moment this year. Despite gloomier numbers in the second quarter, the stock was comparatively resilient and held on to its \$15 levels. Even though aviation experts anticipate three or five years' time to recover the lost air travel demand, airline stocks won't necessarily take this long to recover.

## Takeaway

I think the worst is already over for Air Canada stock, and it will show a slower but steadier increase once it ramps up operations. This will lower the most concerning factor — cash burn — for the airline and ease some financial burden. This is certainly not a risk-free bet and will require a lot of patience. But investors who stayed with Air Canada during the SARS disaster and the 2008 financial crisis got rewarded big later.

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