



## Air Canada (TSX:AC) Stock: Is This the Bottom?

### Description

**Air Canada** ([TSX:AC](#)) stock is experiencing a renaissance. Over the past 30 days, shares have risen by more than 20%. Investors wonder if this finally represents a turning point.

Of course, this recent strength comes *after* many months of pain. At the start of 2020, shares were priced above \$50. When the COVID-19 pandemic hit, they plummeted to just \$12.

After a brief rise, the stock is now priced at \$17. There's still more than 100% in potential upside if conditions return to normal. Is this the bottom?

### Know these numbers

Planes aren't cheap. Neither is employing thousands of pilots, flight teams, and maintenance crews. All of this makes the airline industry a high fixed-cost business. Whether an airline is flying hundreds of flights per day, or just a handful, many of their expenses remain consistent.

High fixed costs mean profits swing more wildly than revenues. For most airlines, a revenue dip of 10% would send them into loss-making territory. This is what makes the COVID-19 crisis so deadly for the industry. Last quarter, Air Canada flew at just 5% of its current capacity. That's a revenue hit of 95%!

As you can imagine, this forced huge losses onto the company. Over the last six months, Air Canada lost a combined \$1.8 billion. That's concerning considering the total market cap is only \$5 billion.

Company executives say that they have \$9 billion in total liquidity left, giving the firm a financial runway between 12 and 24 months. The market knows this, which is why the stock remains near multi-year lows. With conditions picking up, is now the time to [bet on a rebound](#)?

### Did Air Canada stock bottom?

The first thing to know is that calling an exact bottom will be very difficult. That's because the length of

the recovery will take *years*.

“We’re now living through the darkest period ever in the history of commercial aviation, significantly worse than 9/11, SARS and the 2008 financial crisis,” Air Canada CEO Calin Rovinescu stated at the start of the pandemic. He quickly shot down any hopes of a quick turnaround.

“We’re effectively putting the airline in a state of hibernation, unwinding a decade of international growth.” he [added](#). “We expect it to take three years for Air Canada to get back to 2019 levels of revenue and service.”

Other airlines think a recovery will take roughly five years. One industry CEO said passenger traffic could be *permanently* lower. Warren Buffett, long known for his patient bets, sold all of his airline holdings earlier this year.

In conclusion, the revenue recovery will take years. That’s bad news for every airline with finite resources. Air Canada has a year or two of wiggle room, but it’s clear that the fundamentals haven’t recovered yet, even if the share price is picking up.

Betting on Air Canada stock right now is like throwing a dart in the dark. That’s an unnecessary move considering there are so many bargains on the stock market right now. If you want to bet on high-growth stocks, take a look at the rising tech industry, not struggling airlines.

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