



Air Canada (TSX:AC) Stock: Is it Smart or Silly to Buy?

Description

Air Canada ([TSX:AC](#)) stock is picking up momentum. The stock isn't quite in overbought territory now, but it's moving towards it. This shows that many investors are still focusing on this risky but high-reward stock if it recovers well in time. The chances of that happening are in question. Air Canada's management itself has predicted that it would take at least three years before it will likely operate at its pre-pandemic levels.

Even if you stick by that timeline and assume that if Air Canada's operations revert back to normal, so would the stock, but it doesn't always happen this way. The stock has already been diluted once because of the pandemic. If the low-demand situation persists, Air Canada might have to take some drastic measures to raise cash again, and those measures might hurt the valuation even more.

It's difficult to state with certainty whether buying Air Canada right now is smart or silly and risky.

A silly investment

Like Warren Buffett, if you have given up on the business and believe that the air travel industry will keep on suffering more years, even when the pandemic is over, buying it just because it's undervalued and *might* recover [is silly](#). The airline industry has taken a severe hit during the pandemic, and even when things get back to normal, many airlines, including Air Canada, will fundamentally change.

And we can't say for sure how these changes would impact the stock's movement. The company might focus more on strengthening its fundamentals, so another pandemic-like situation doesn't rock it to the core, instead of creating more value for shareholders. And we don't know how it would impact investor sentiment.

Right now, the chances of bankruptcy are meagre, but it can change. A second wave is likely, already hitting the country, and we might soon see another phase of lockdowns (regional, not provincial or national). And if the international travel ban and isolation restrictions aren't lifted, the company might keep beating expert estimation for losses in earnings, quarter after quarter. And with each such quarter, the chances of bankruptcy would get higher.

A smart move

Even if living with COVID-19 is a new reality, and we might see small resurgences of the virus for at least a couple more years, it won't extinguish the need for air travel completely. Leisure travel will keep on suffering, but that's not the only reason people fly. Also, the government needs to ensure that all parts of the country are connected through air routes.

Even if we start seeing airline bankruptcies, Air Canada is likely to be last in line, and the first to receive government aid if it becomes necessary. This means the company (most likely) *will* survive, one way or another. It might trim its assets, take care of its debt, and focus more on cargo, which has been the most profitable wing of the company lately.

Even as a miniaturized version of itself, the stock has the potential to revert back to its former glory. And if you believe in that potential, then buying Air Canada might be [a smart move](#).

Foolish takeaway

Air Canada is now offering international medical and quarantine insurance to its fliers (except for Saskatchewan residents). It's also offering an unlimited monthly pass for domestic flights. The company is trying to squeeze every last drop out of the dried-out demand. It's still fighting to stay afloat. How it translates to its stock is yet to be seen.

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Author

adamothonman

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