



## Air Canada (TSX:AC): Heading Higher in Q4?

### Description

Earlier in the year, I'd [strongly encouraged investors to ditch their shares](#) of **Air Canada (TSX:AC)** well before the novel coronavirus had a chance to cause one of the worst pandemics the world has seen in a long time. I noted that the risk/reward no longer made sense, as the [pandemic](#) threatened to interfere with international flights. Given Air Canada derives a considerable chunk of its revenues from non-domestic flights, I thought it a severe correction was coming. As it turned out, Air Canada stock ended up crumbling like a paper bag, losing around 77% of its value in a matter of weeks.

Indeed, the crash was vicious and unforgiving, crushing investors who downplayed the threat of the coronavirus. In the months following March, most stocks have bounced back, many have regained half of the ground lost in the February-March sell-off, and some more resilient plays not only staged a complete recovery but are now sitting at fresh all-time highs, despite the threat of a second wave of cases that could trigger another unemployment spike.



## The bottom is in for Air Canada, but will it hold?

Air Canada has barely gained ground since its implosion from \$52 to the low to mid-teens. The company's management team has been scrambling to shore up liquidity and reduce cash burn to buy enough time to wait for a safe and effective vaccine to be widely available. Nobody knows when this pandemic will end or if airlines such as Air Canada will be able to survive without a massive bailout. Without clarity on the endgame of this pandemic, Air Canada remains impossible to evaluate with precision. As such, investors should acknowledge that it could go either way for the well-run Canadian airline and that it's at the mercy of exogenous factors.

While Air Canada stock may seem cheap, there's no telling how much cheaper it could get if its revenues remain grounded for longer than most folks on the Street are expecting. That said, the timely advent of a safe and effective vaccine could send airline stocks soaring by double-digit percentage points over days. Of course, you'll need to get in at the worst time to be able to enjoy such sudden upside. And to punch your ticket to a chance at such outsized gains, you're going to need to bear an unfathomable amount of risk.

While airline stocks look to have bottomed out in recent months, with Air Canada bottoming in the low teens, a drastic worsening of this crisis, which could happen in the imminent second wave, could cause AC shares to tank through its bottom to the single digits.

## Should you buy airline stocks in Q4?

If you've got a strong stomach and excess cash to speculate with, only then would I consider going against the grain with any airline at this market crossroads. Even the highly liquid ones, like Air

Canada, remain calculated speculations at best, even though there are potential catalysts (rapid COVID-19 testing, which was recently approved by Health Canada) that could provide a lift to the air travel industry over the coming months.

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