



## Should You Give Up on Air Canada (TSX:AC) Stock in 2020?

### Description

Airliners have been devastated by the COVID-19 pandemic. Not since the advent of the War on Terror has international travel suffered a comparable collapse in demand. Even in the weeks immediately following the September 11, 2001, attacks, airliners had not experienced a drop in traffic this severe. **Air Canada** ([TSX:AC](#)) is the top domestic airliner.

Leaders in Canada and around the world have moved to re-institute harsher restrictions, as COVID-19 cases have climbed in the early fall. The United Kingdom has pushed forward new rules that include the closure of bars and restaurants at 10 pm. Similar restrictions have been introduced in regions across Ontario. A return to this environment spells disaster for a reeling international travel industry.

### Why Air Canada stock slipped over the last month

Shares of Air Canada have dropped 9.3% month over month as of close on October 1. The stock is down 67% so far this year. In late August, it looked like Air Canada and its peers were [on the mend](#). The company had introduced a testing experiment in the hopes that its success could eliminate the need for international travelers to quarantine. This has been one of the key hindrances to those who want to go overseas.

It should have been clear at the time; only a fool would hide behind optimism in 2020. Last month, I'd discussed the [slew of cancellations](#) for Air Canada and WestJet in the late summer. In Q2 2020, Air Canada passenger revenues dropped 95% from the previous year. The company was forced to move forward with 20,000 layoffs in response to this crisis. Nav Canada revealed that air traffic in August dropped by two-thirds compared to the same time in 2019.

### Can airlines get creative enough to weather this storm?

I'd praised the testing gambit by Air Canada and its peers heading into September. Airliners have been put in a very difficult position. They need to respond with creative solutions in order to survive the months ahead. This has been made even harder by the opaque strategies pursued by Canada and

many of its international allies. What constitutes the need for more restrictions or a move to loosen them can be arbitrary and even contradictory. Air Canada CEO Calin Rovinescu called for the government to apply “proportionality” to its policy making in the face of this pandemic.

Fortunately, Air Canada has put itself in a position to fly through this historic turbulence. The company learned the lessons of the 2007-2008 financial crisis and subsequent recession. It has a much-improved balance sheet compared to a decade ago. Of course, there is still risk in this brutal climate.

## Should you still hold Air Canada stock in your portfolio?

Air Canada stock last had a solid price-to-book value of 2.3. Earnings are still well positioned for big growth, assuming we eventually return to normalcy across the globe. As always, investors should be eager to add a quality stock at a discount. Air Canada started the 2010s in the doghouse, falling below the \$1 mark at one point. It finished the decade as one of the 10 best-performing stocks on the TSX. You should not give up on Canada’s top airliner as it works its way through this historic crisis.

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