Can Air Canada (TSX:AC) Stock Get Back to $20?

Description

Timing is everything when it comes to investing. If you look at **Air Canada** (TSX:AC) and the roller coaster it's been on, you'll see my point. On the one hand, you could have made millions investing in a company like Air Canada. The company declared bankruptcy back in 2003, and crashed to under $1 per share a few years later. Then, a miracle happened.

If you had bought at those prices and held out during its reinvention, today you would be laughing. Even at current prices. The company has a 10-year compound annual growth rate (CAGR) of 17.82% as of writing. It also has returns of 44.54% in the last five years. So you're not struggling if you're a long-term holder.

If you had sold at peak prices of $52.71, then it should leave you breathless how much you could have. Let's say you had $100,000 to invest. That would make the peak worth $5,922,471.91! But let's also say you just opened a Tax-Free Savings Account (TFSA) back in 2009 when this was going on. By 2012, when its lowest price hit, you would have contribution room of $20,000. Even that investment would have turned your money into a golden $1,184,494.38!

So, can it do it again?

Bad to worse

Things were going so well for Air Canada before the pandemic. The company had completely turned itself around from those dollar days. It had reinvested in its infrastructure, buying up a fleet of fuel-efficient airplanes to bring costs down over the long term. It had reinvigorated its flight routes to optimize its flights, again bringing down costs. It bought back Aeroplan and was in the process of buying **Air Transat** until the crash.

What did all of this reinvestment mean? Debt, of course. The company took on debt, but now had a ton in assets to fall back on. But then, the pandemic hit.

That left Air Canada — and its shares — sank. The company suddenly had billions and billions in debt as flights were grounded. Even now, with flights back in the air, people are wary of fly – and rightly so. There have been a number of occasions where COVID-19-positive individuals were on flights. This means Air Canada has to release a statement and notify anyone on the flight of the situation — definitely not good for share prices.

As of its latest quarter, Air Canada went from having $7.1 billion in debt at the end of 2019, to now just over $10 billion in debt. That's a 42% increase in under a year.

So, is $20 likely?

In short: yes! Here's why. The company has all this debt, but is likely to have government money come to its rescue as it tries to rebuild. This might be years away, but it's likely to happen. The government will want to save the leading airline company in the industry, as it did before.

Meanwhile, it had a lot going for it before the crash. Air Canada can now fly at cheaper costs than ever before. While the investment wasn't the best timing debt wise, it certainly was when it comes to keeping costs to a minimum. And people will fly again. It'll be slow, but it'll happen. So it might take a few years, but Air Canada will climb to heights again.

As for that $20 share price? I would say that would happen in the next year for sure. Economists estimate it could reach $23.60 in the next year, which is a potential upside of 48% as of writing. So if you're willing to be patient, this company could soar to new heights once more.

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