



Air Canada (TSX:AC) Stock: Finally Some Good News!

Description

Air Canada ([TSX:AC](#)) stock has struggled this year. When the COVID-19 [pandemic](#) hit markets in March, shares quickly fell 70%. They still haven't recovered.

There are a lot of concerns here, but this could be an opportunity to make *big* money. Just look at history.

From 2006 to 2009, Air Canada stock fell by 95%. But over the next decade, it rose 50 times in value! Those willing to take the risk turned \$5,000 into \$250,000.

Could this be another chance to profit? Some recent news looks encouraging.

This news looks good

The biggest problem right now is cash burn. The entire industry is still flying at a tiny fraction of its previous capacity. Air traffic in many regions of the world is just 5% 2019 levels.

Air Canada is no exception. Passenger revenue fell off a cliff with the pandemic began, with no recovery to date. Last quarter, the business lost more than \$1 billion. The quarter before that, it also posted a \$1 billion loss. This quarter should be no different.

No company can sustain losses forever. That's especially true in this case, as Air Canada's valuation is down to just \$4.8 billion. Its losses this year could exceed its entire market cap!

There are only two ways out of this mess. Passenger revenue needs to improve dramatically, or the company must find new financing to plug the gap. With pandemic fears still alive, further financing became the only viable path to avoid bankruptcy.

In recent weeks, investors received some good news.

"Air Canada has announced it completed two US\$1.52 billion longer-term refinancing transactions," [reported](#)

Airways Magazine. “These will replace the airline’s previous short-term facilities.”

This is *huge* news. If capital markets refused to refinance these loans, the company could go bankrupt within weeks. This is a lifeline that Air Canada needed badly, and the market came through for it.

Should you bet on Air Canada stock?

For now, it looks like the company will survive. Don’t take that for granted. Several global carriers have gone under since the pandemic began.

We now have a new data point that suggests the market will continue lending to Air Canada until the downturn subsides. Is now the time to make a bet?

There’s no doubt that fortunes will be made through post-pandemic investment. Some very high-upside stocks are trading at a deep discount. Despite the recent data point, however, it may be best to leave Air Canada stock behind.

“The sad reality is that unless airlines raise new capital, they will go bankrupt,” warned Vitaliy Katsenelson, CIO at Investment Management Associates. “This capital, though it might save them, will reduce the value of their businesses. Equity issuances would permanently dilute shareholders, as future earnings will be shared with a much-increased shareholder base.”

This is the harsh reality for Air Canada. Even if it survives, shareholders that took a bet early may see their gains evaporate due to dilution.

Even if Air Canada stock does rise in the months and years to come, the risk/reward balance simply isn’t there, especially when there are so many other lucrative stocks to choose from.

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