



## Air Canada (TSX:AC) Just Became Investable Again

### Description

**Air Canada** ([TSX:AC](#)) stock is stuck in limbo amid unprecedented [uncertainties](#) that have made the air travel industry untouchable through the eyes of many smart long-term investors, including the likes of Warren Buffett, who cut his losses with U.S. airline stocks earlier in the year.

The air travel stocks are among the most hated plays right now. Air Canada stock is still down around 70% from its pre-pandemic highs, but there are reasons to grow optimistic as some positive COVID-19 developments could be on the way. As I noted in a prior piece, the airlines, including Air Canada, could be given a sustained lift well before that safe and effective vaccine arrives thanks to rapid COVID test kits that could be in the airline's hands within a matter of months.

### Air Canada orders a big batch of rapid coronavirus test kits

Two weeks ago, Air Canada ordered a batch of 25,000 rapid coronavirus tests that reportedly produce results in a matter of minutes. If such test kits are successful, count me as unsurprised if Air Canada stock goes into rally mode after months of treading water in the mid-teens. While rapid-testing technologies should give airline investors something to be optimistic about as they await a vaccine, one should not expect faster testing to be the singular cure for Air Canada's ailments.

In a normalized environment, Air Canada derives a considerable chunk of its revenues from international flights. Even with rapid-testing procedures in place, traveler behaviour is unlikely to bounce back anywhere close to 2019 levels until COVID is finally conquered. Moreover, travel restrictions could continue to weigh heavily on the Canadian airline's top line for the duration of this pandemic.

That said, I think testing is a real positive development that can provide some relief for Air Canada's business, and I don't think the good news has been factored into the share price at this juncture. With rapid testing in place, domestic travel could be in a position to recover modestly over the coming quarters, even in the face of a [worsening second wave of COVID cases](#).

The real reason to own Air Canada stock is for its earnings potential in 2022 and beyond. Rapid tests

can provide the airlines with a bit of near-term relief that can improve the firm's chances of making it through this crisis without a massive government bailout. Air Canada has a solid liquidity position, a now muted cash burn rate, and a minimal amount of debt coming due over the next year.

## Foolish takeaway

If there's an airline that can weather the hailstorm in the air travel industry, it's Air Canada. The advent of rapid-testing kits, I believe, improves the airline's chances of making it out of this pandemic alive and think shares are now more investable than they were a few months ago.

At the time of writing, Air Canada stock trades at 2.3 times book value. If you think the firm will still be standing once the pandemic ends, there could be a good amount of upside to be had from these depressed levels. For now, investors appear skeptical of rapid-testing technologies and seem to be rattled over COVID-hit stocks, as the second wave of COVID worsens.

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### Date

2025/08/25

### Date Created

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2020/10/13

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