Market Crash Alert: Will Air Canada (TSX:AC) Stock Fall Below $10?

Description

Investors have witnessed a sustained sell-off in equity markets in the last three trading days. The second wave of coronavirus infections in North America and Europe might result in partial lockdown restrictions, and this does not bode well for already beaten-down companies such as **Air Canada** (TSX:AC).

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Companies in the airline, hospitality, retail, and energy sectors were hit hard when lockdown restrictions were imposed in early 2020. As borders were shut, international travel came to a standstill, and this sent shares of Air Canada spiraling downwards.

Air Canada stock fell from a record high of $52.7 at the start of 2020 to a multi-year low of $9.26 in March. Warren Buffett, who held a position in the four major airlines south of the border, sold his stake in each of the companies and exited the capital-intensive sector for good.

In an investor letter back in 2007, the Oracle of Omaha claimed airline stocks can be one of the worst investments, as a durable competitive advantage has been elusive for several decades. The airline firms raked in sales but were unable to translate this growth into sustainable profits.

The significant increase in competition coupled with capital expenditure required to increase traffic routes and passenger capacity played a part in dragging profit margins lower. However, at the turn of the last decade, Buffett emphasized that the airline sector changed for good, at least in the U.S.

The four major airline companies accounted for 80% of the market, which attracted investments from Buffett and **Berkshire Hathaway**.

Air Canada and peers decimated amid COVID-19

In May 2020, Warren Buffett admitted he made a mistake by investing in airline companies and exited this space for good. While no one could have predicted the COVID-19 pandemic, the airline industry remains a cyclical industry.

This means Air Canada and peers will outperform the markets in a bull run and grossly underperform in an economic downturn. In the decade prior to the pandemic, Air Canada was one of the top-performing stocks on the TSX and returned a staggering 3,500% in that period.

However, Air Canada’s stupendous returns coincided with one of the strongest bull runs in stock market history. Right now, industry experts believe it might take at least two years for passenger traffic to reach pre-COVID-19 levels.

While the world patiently waits for a vaccine, Air Canada is burning millions of dollars every month to keep operations running. In the last six months, Air Canada lost $6 billion. In the September quarter, **Southwest Airlines** reported a record loss of US$1.2 billion compared with a net profit of US$660 million in the prior-year quarter.

Air Canada has $9 billion in liquidity, which means it has 18 months of runway left and might soon need to raise additional capital, especially if the ongoing second wave of COVID-19 delays recovery for airline companies.

The future looks grim for Air Canada and other airline stocks. There is also a good chance for the airline industry to be permanently smaller in a post-COVID-19 world. Air Canada stock fell close to 4% yesterday, and the stock may trade lower if the broader market sell-off continues.

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araghunath

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