Air Canada (TSX:AC): Is $50 or $5 More Likely?

Description

Air Canada (TSX:AC) has been treading water this year, as the air travel industry has fallen to its knees at the hands of the COVID-19 crisis. Now that shares have bottomed out for months, many fearless dip buyers hungry to make a quick buck may be under the impression that the worst may already be over. Given the perfect storm seems all but baked in, AC stock looks to be a generational opportunity to land a timely multi-bagger before the world has a chance to recover from this socio-economic disaster.

There's no question that a bull-case scenario would bode very well for the bulls, as shares look to make a run back to their pre-pandemic all-time highs at around $50 and change. On the flip side, a bear-case scenario, which may be just as likely, could send shares trending towards zero. The likeliest scenario, I believe, could see Air Canada fall below its $15 level of resistance to the mid-single digits, as bad news is likely to test the patience and pain tolerance of the contrarians standing by the name on its continued tumble.

Now, many positive and negative surprises could send shares rocketing or plunging without a moment's notice. This piece will look at two potential scenarios to determine if a $50 or $5 price target is more likely for AC stock at this juncture.

The bull case: Air Canada at $50

Given the pessimistic air travel rebound expectations of various industry pundits, Air Canada at $50 seems more than just far-fetched. Such a scenario would make Air Canada stock a three-bagger, enriching fearless contrarians with the strongest stomachs.

Even if we're due for a safe and effective vaccine by the first quarter of next year, it could take many years for most travellers to take to the skies again, as the coronavirus recession is likely to curb discretionary expenditures like flight tickets for some time, even after it's safe to make a return to the skies.

I think it could take as much as three years for the discretionary spending to reach that of 2019 levels.

As such, Air Canada investors looking to $50 as a target come the advent of a vaccine may be left disappointed. While I wouldn't rule out a return to $50 in five years should a bull-case scenario happen, I suspect that most investors are looking to trade Air Canada on the outcome of the binary event that is the advent of a safe and effective vaccine.

If rapid-testing kits can help relieve near-term pressures for the airlines until that vaccine is ready for broad distribution, I'd look for Air Canada stock to post a modest rally to the high $20 levels, as investors begin to look past near-term woes to earnings expectations beyond 2021.

The bear case: Air Canada at $5

Air Canada has done a great job of battening down the hatches, with capacity cuts and liquidity raises. The cash burn rate is on the downtrend, and the airline looks to have bought itself enough time to wait for a vaccine.

If we're without a vaccine past the fourth quarter of 2021 and this pandemic drags on, with intermittent shutdowns for another two years, Air Canada stock could be at risk of retreating to the single digits, as a generous government bailout becomes the only option for the firm's survival.

I don't think the bear-case scenario is likely, but it can't be ruled out, given limited visibility with the pandemic's endgame.

Which scenario is more likely?

I don't think either price target is likely within the next 18 months. My personal price target of around $30 considers the likeliest outcome, which factors in rapid-test kits and a readily available vaccine in Q4 2021. If I had to pick one extreme scenario for Air Canada, I'd say a $5 price target is the likelier of the two extreme price targets. But I certainly wouldn't bet on the name falling to such levels.

CATEGORY

1. Coronavirus
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Stocks for Beginners

Date
2025/08/18
Date Created
2020/11/06
Author
joefrenette