



Here's Why Air Canada (TSX:AC) Has Way More Room to Run

Description

Air Canada ([TSX:AC](#)) and the broader basket of airline stocks were up big on Tuesday, as [COVID-hit value stocks led the upward charge](#). Air Canada stock surged nearly 9% on the day, propelling shares over 60% above their November lows. While it may seem you missed the chance to hop aboard the ailing airline, I'd argue that given Air Canada stock is still a country mile below its pre-pandemic highs, there could still be a heck of a lot more upside in 2021.

COVID-19 vaccines clearing the runway for airline stocks

With a handful of effective COVID-19 vaccines with efficacy rates in excess of 90%, the runway looks to have been cleared for the airlines. While there remain a plethora of uncertainties between now and when the vaccine can be administered to the masses, I'd argue that the odds are heavily in favour of investors. Simply put, the existence of an effective vaccine makes the airline stocks far less risky, even amid a worsening second wave of cases.

With vaccines ready to go as soon as a few months, insolvency risks of major airlines like Air Canada have dropped substantially, and the odds of Air Canada stock heading to zero, I believe, have dropped to zero. Air Canada already had a solid liquidity position and a somewhat decent cash burn rate before **Pfizer** delivered the [good news](#) on the initial vaccine breakthrough. With more clarity on the vaccine timeline, I think Air Canada will have far less trouble raising any additional capital if it needs to weather this worsening second wave and another round of lockdowns that'll be sure to accompany travel restrictions.

Air Canada suddenly became far less risky

An effective vaccine won't do much until it's been administered to the general public to achieve herd immunity. The airlines still face an uphill battle, but with a glimmering light at the end of the tunnel, I think depressed airlines like Air Canada sport the best risk/reward in years. While the Canadian airline isn't as rewarding as it was a month ago (you missed out on 60% in quick gains), the inherent risks involved with the investment, I believe, have dropped considerably, possibly warranting even more

gains to bring the risk/reward back into balance.

As vaccines become ready to go in early 2021, it seems as though risks involved with the ailing airlines can only fall farther. Of course, there could be unforeseen setbacks. Still, I think Air Canada stock is a buy for longer-term investors, even with the risk of a short-term retracement, any setbacks, or post-vaccine-news exhaustion in the COVID recovery plays.

Sure, it's tough to justify getting into a stock after it's already made a huge upward move. I've pounded the table on Air Canada in the months before November, urging investors to buy the stock while it had fluctuated around its technical bottom in the mid-teens. Air Canada had more of an options-like risk/reward back then.

Given pandemic uncertainties, it was a calculated speculation at best. However, I've urged investors to ignore Warren Buffett's distaste for airline stocks and to continue accumulating shares, noting that vaccine breakthroughs had the potential to happen at any time, essentially allowing investors to get options-like upside, with what I thought was a near-negligible risk of the name falling to zero.

Foolish takeaway on Air Canada stock

Air Canada faces an ugly quarter up ahead, but with the runway poised to be cleared, I think the name deserves a free pass for its next quarter, no matter how horrific the numbers. Air Canada's profitability prospects past 2021 are incredible. As such, I view AC stock as having far more room to run as it corrects to the upside. Just how much room could Air Canada stock surge in 2021? If all goes smoothly, I wouldn't at all be surprised to see the stock more than double to \$50 by 2021's end.

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

2025/09/13

Date Created

2020/11/25

Author

joefrenette

default watermark

default watermark