



## Air Canada: Things Could Get Ugly Really Fast

### Description

**Air Canada** ([TSX:AC](#)) isn't a stock that's without its fair share of risks. Yes, there are effective [COVID-19 vaccines](#) that could be ready to roll out in a month or so, but that doesn't mean it'll be smooth sailing from here on out. While I believe that Air Canada and other air travel stocks are far less risky than they were before the positive vaccine news in early November, I can't say that I'd be inclined to place a bet after the stock's recent run, given there are still many bumps in the road that could cause shares to plunge.

### Air Canada stock is coming in way too hot!

While I'm a fan of the long-term risk/reward tradeoff, beginner investors who get in at near \$25 could stand to feel the full impact of a pullback once this vaccine-driven rally begins to [run out of steam](#). There are other COVID-19 vaccine developers that are poised to pull the curtain on their results. However, with a high watermark (95% efficacy rates) that's already been set, I don't suspect that further vaccine breakthroughs will give much lift to the broader markets or the COVID-19 recovery plays such as Air Canada.

At the time of writing, Air Canada is up nearly 70% this month. Amid surging coronavirus cases that could threaten to bring forth harsher travel restrictions, Air Canada is not yet out of the woods. With another ugly quarter up ahead, investors shouldn't feel rushed to get into the stock before it makes a return back to its pre-pandemic highs of around \$50 and change.

### Air Canada still faces risks in the post-pandemic world

Many pundits simply don't see an abrupt return to 2019 levels for the air travel space. Some smart folks, including the likes of Bill Gates, think that business travel could take a long-lasting hit as a result of this pandemic.

While Air Canada is poised to make up for lost time once the masses have a chance to get vaccinated, it may be unreasonable to expect passenger levels to return to (and stay at) that of 2019 levels. That

said, even if some business travel is lost for good, Air Canada still has ample room to run from today's levels. After looking at profitability prospects beyond 2022, it becomes more apparent that Air Canada is a stock that deserves to be trading at much higher levels.

It's not just the potential for a permanent loss in demand for business travel that investors need to factor in. Air Canada derives a considerable amount of its revenues from international travel, which could be poised to face a more muted recovery than domestic travel. While Canada and the U.S. may reach herd immunity at some point next year, there's no telling which countries will still be affected if this horrific pandemic were to go endemic.

Air Canada has lagged behind that of the U.S. airline stocks in this recovery. And it'll probably continue to do so, even as COVID-19 is conquered in certain geographies next year. Fortunately, Air Canada has done a stellar job of rolling with the punches thus far, and it'll continue doing so. Given uncertainties regarding the recovery in business and leisure air travel, though, I'd much prefer waiting for Air Canada stock to retrace to around \$20 before I'd consider initiating a position.

## Foolish takeaway

The pandemic could end in 2021. But that doesn't mean Air Canada is a grand-slam homerun that should give you that FOMO (fear of missing out) feeling. Compared to more domestically focused U.S. airlines, I think Air Canada faces a bumpier road to recovery. As such, investors shouldn't seek to chase the stock on its latest bout of momentum quite yet, given a potentially high risk of retracing back to the teens.

Stay Foolish, my friends.

### 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**

2025/08/22

**Date Created**

2020/11/30

**Author**

joefrenette

default watermark

default watermark