Air Canada (TSX:AC) Could Nosedive Further: Should You Buy the Dip?

Description

Air Canada (TSX:AC) stock has been a rather turbulent ride this year. The stock lost over 75% of its value from peak to trough during the vicious February-March sell-off that decimated the industries that were most vulnerable to the disruptive impact of the COVID-19 crisis.

For Warren Buffett, who was invested in a wide range of U.S. airline stocks at the time, the pressures were too much for him to justify holding his investment. If you followed the man out of the airlines, you missed out on a massive vaccine rally in early November that effectively cleared the runway for Air Canada and its peers.

With Air Canada stock (and many other COVID-19 recovery plays) now on the retreat again, many investors are wondering if the recent pullback is a buying opportunity to get a better entry point before the next leg up or if all of November's gains are about to be surrendered amid surging COVID-19 cases that's threatening to send us right back into lockdown. At this juncture, it's too early to tell if Warren Buffett was wrong to sell out his stake in U.S. airline stocks.

Air Canada stock back on the retreat

At the time of writing, Air Canada is down over 5% from its peak at $27.50. While shares could certainly roll over into year's end, I'd encourage investors, especially those who stuck around for the full extent of the February-March crash, to stay the course with the name as turbulence picks up. The market is a tug-of-war between today's gloomy reality and the brighter future that could see the conquering of the insidious coronavirus.

Ultimately, COVID-19 will be conquered, and Air Canada stock will be on the path to recovery again. But in the meantime, investors should expect further turbulence, and if things get really ugly, it's quite possible that Air Canada stock could be headed back to the teens, slapping near-term-focused investors with very steep losses over a short timespan.

That said, I would look to dollar-cost-average into the name over the coming weeks and months, as Air Canada still looks to be one of the better air travel stocks (and COVID-19 recovery plays) to have in your portfolio heading into 2021. Profitability prospects and Air Canada's recovery trajectory have the potential to be profound. But for your Air Canada investment to yield meaningful fruit, you'll need to stand by the name when times are tough and the outlook gets gloomier.

Air Canada isn't out of the woods yet

While Air Canada, which has a considerable amount of its revenues derived from international flights, probably won't be in for as sharp of a recovery as some of its more domestically focused peers, I think that in due time the stock will catch up and the "internationally focused airline" discount to its peer group will fade.

For now, Air Canada faces a bumpy road to recovery, but the company is well equipped to handle another round in the ring with Mr. Market. Management has done the best it could to shore up liquidity and reduce cash burn, buying the company more than enough time to wait for the pandemic to subside and the coronavirus to be eliminated in most geographies.

Foolish takeaway

If you're not a fan of turbulence, Air Canada stock probably won't be your cup of tea. And you may not be able to hold the stock long enough to make money. If you're no stranger to excessive amounts of volatility and are willing to add to your position on weakness over the next several months, only then do you have my blessing to initiate a small starter position at $26 and change.

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