



Air Canada (TSX:AC) Just Crashed 10%: Should You Buy This Dip?

Description

Air Canada ([TSX:AC](#)) shares nosedived 10% on Wednesday on news of its share offering. AC stock has been retracing a considerable amount of ground gained during the epic rally in November. In prior pieces, I urged contrarians to resist the urge to chase the stock on vaccine optimism after it had made such a big upward run from \$15 to around \$27 and change, warning that the risk of retracement was high and that patient contrarians should wait for a dip in AC stock if they missed the [big bounce](#).

Now that the stock is in a tailspin to the low \$20 levels is now a good time to punch your ticket to the top [COVID-19 recovery play](#)? Could there be a more attractive entry point on the horizon as worsening COVID-19 cases threatens to drag AC stock back to the high teens?

Air Canada's vaccine-driven rally is losing potency

While the COVID-19 vaccine news has cleared the runway for AC stock to take off, I noted that investors likely had unrealistic expectations regarding the vaccine rollout timeline and when the horrific pandemic would end.

Now, Air Canada remains one of my favourite airline stocks to bet on the post-pandemic world. The company did a stellar job of battening down the hatches, raising liquidity, and cutting capacity to drive down its cash burn rates — all without a handsome government bailout package that some thought was the only option for Air Canada to survive when it seemed that investors were giving their airline shares away.

Versus its peers south of the border, Air Canada also came into the crisis with less leverage and a decent liquidity position, after having not “wasted” as much cash on share repurchases in prior years.

Given how management has navigated this worst-case scenario of a crisis, I believe Air Canada stock deserves a premium multiple coming out of this pandemic. In the meantime, however, investors should expect the focus to return to today's dire reality, with surging COVID-19 cases and the threat of stricter lockdown measures.

Indeed, it's a tug-of-war between the hopeful medium-term outlook (the pandemic's end could happen in the second half of 2021) and the gloomy short term. Thus far, the medium term has overpowered the short-term, but this could change as we move closer to the holiday season, especially if the Santa Claus rally isn't coming to town for investors this year.

Should you buy AC stock after falling into correction territory?

With a greater mix of international flights, which is poised to see a relatively modest recovery, Air Canada is nowhere near out of the woods yet. AC stock is going to remain turbulent, and while I'd much prefer waiting for a wider margin of safety in the high teens, I'm certainly not against nibbling on the latest correction as long as you're ready to average down your position.

As long as you're buying the stock for its prospects beyond 2021, I encourage you to catch the falling knife, which could have more room to fall following its recent price offering before it has a chance to ricochet.

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