Air Canada (TSX:AC) Stock Is Down 53% in 2020: Buy Now?

Description

The airline industry has been one of the worst victims of the pandemic. The stop-and-start economic situation that the pandemic is fueling has been devastating for the airline business. Even the arrival of the vaccine, which was expected to be the salvation of most severely impacted businesses, couldn't do much because of a strong second wave.

Air Canada (TSX:AC) is suffering from the same problems that the rest of the industry is facing. There is less international traffic (which typically accounted for the bulk of the company's revenues), and the company keeps cutting local routes, alienating local business. Still, the company is going through with its **TransAT** purchase, and the deal is expected to close by February.

A desirable valuation?

From a valuation perspective, Air Canada stock is not nearly as attractive as it was around the end of October when the stock was trading for less than $15 per share. But if you expect the company to grow to its pre-pandemic valuation soon, the current $23.1 per share price can help you more than double your investment. The price is still about 53% lower than it was at the start of the year.

The company is still trading at a price-to-book of 4.8. The enterprise value to sales is down (1.4 times), and forward price-to-earnings is negative 8.7. Even if you consider that desirable valuation, the growth prospect of the company should also be taken into account. Even if you can buy low, it won't be a profitable investment if you don't have the other half of the equation (i.e., selling high).

Air Canada's uncertain future

The recent recovery bout in which the stock climbed over 80% in 30 days made many investors a bit more confident about the recovery of the company. Considering the dominant position of Air Canada in the country's airspace, it's not difficult to guess that the company will recover one way or another. Air Canada will keep standing, even if it's on government-funded legs.

But Air Canada's recovery as an airline and its recovery as stock are two different matters. The stock has gotten too fundamentally weak during the pandemic. The company has also diluted its share to improve its liquidity position, and the sentiment around the airline industry might stay shaky for a long time.

Even if retail investors start believing in the eventual recovery of the company, the reluctance of institutional investors to bet on an airline again might keep any serious money from flowing into the company. So, even if the stock recovers, it might not grow high enough or fast enough to be a very profitable investment.

Foolish takeaway

Even if you believe in Air Canada's eventual recovery, buying right now might not be the right move. A market crash is expected in 2021, and Air Canada stock may slip down to its October valuation before that anyway. Buying Air Canada at around $15 to $16 per share and waiting for the company to triple your money *if* it reaches its pre-pandemic valuation might be a better bet than buying now.

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