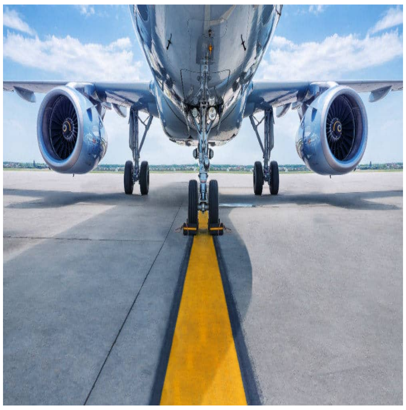

Should You Buy the Dip in Air Canada Stock?

Description

Air Canada (TSX:AC) stock closed the year with a big vaccine-driven rally followed by a pullback that caused shares to flirt with bear market territory. With AC stock still a country mile away from its pre-pandemic all-time high, the dip certainly seems to have produced a compelling entry point for value-conscious investors looking to play the 2021 economic recovery.

The bears regain control of Air Canada stock

Now that the COVID-19 vaccine's rally has lost its potency on air travel stocks, it's clear that investors now want to see some earnings growth. With another wave of COVID-19 cases to get through and growing concerns over the potential spread of the more infectious variant found in the U.K., things are about to get much worse before they get any better. So, the prospect of a 2019-level earnings growth recovery is likely still many quarters, if not more than a full year, away.

That said, it's times like these when the bulls run out of steam and the bears regain control that is typically a great time to go against the grain for a shot at an outsized long-term gain. Catching a falling knife is far easier said than done, though. With Air Canada stock at risk of surrendering most (or potentially all) of the gains scraped back in November in the early innings of 2021, those who want to punch their ticket to the ailing airline are going to need both a very strong stomach for turbulence and a long-term time horizon that could exceed 18 months.

While there are a handful of safe and effective COVID-19 vaccines being rolled out (with more potentially on the way in early 2021), there's no guarantee that the pandemic will even end in 2021. As I explained in a prior piece, there are still many things that could go wrong. As such, investors would be wise not to get too complacent on the recovery trajectory, which may be pushed back by months should the vaccine rollout not go as smooth as planned.

Mind the turbulence in early 2021

Any modest setbacks that could delay the pandemic's end to 2022 could cause further turbulence in the stock market, with bid-up reopening plays like Air Canada leading the downward charge. That's not to say that Air Canada stock is to be avoided, though, as the potential downside risks, I believe, are dwarfed by the upside if things were to go right.

So, if you're looking to make a quick buck in the new year, Air Canada may not be your best bet at this critical market crossroads, especially if you're easily rattled by huge negative moves based mostly on market noise. If you have conviction in the longer-term travel recovery story and are willing to hold onto your investment beyond 2022, though, I think Air Canada stock has one of the better risk/reward trade-offs on the TSX.

Air Canada looks like a solid buy now and on any further weakness

Analysts at RBC Capital Markets note that Air Canada is "better off" than many of its peers in the post-pandemic world, with many prospects that can "support" a rally to $30 (that's 30% worth of upside from today's levels).

I think they're right on the money and think AC stock is a compelling contrarian pick right here, although I'm sure the name is full of weak-handed investors who will be quick to throw in the towel on any speculation over mutated COVID-19 strains that could delay a return to normalcy.

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Date
2025/07/30
Date Created
2021/01/04

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