Why Air Canada Stock May Be Headed for a Steeper Plunge

Description

Air Canada (TSX:AC) stock continues to be a compelling reopening play for hungry Canadian investors looking to go against the grain for a shot at an outsized post-pandemic gain.

While AC stock could have multitudes of upside when you consider the profitability prospects in a post-COVID world, there remain many major risks that could still stand to derail one's contrarian investment thesis, and they should not be discounted.

Don't count on vaccine news to lift AC stock

Sure, we've got a handful of effective COVID-19 vaccines that could crush the pandemic this year. But that doesn't mean the coast has been cleared yet. The vaccine-driven shot in the arm of the reopening plays like Air Canada has begun to lose its potency, and I don't suspect any further vaccine reveals will be much of a needle mover for the ailing airlines.

There are still clouds of uncertainty that are hazing the future of the top airline stocks. While they do see the light at the end of the tunnel, there's still no telling just how far away that light could be. And there's a risk that the light could be dimmed in the event of negative surprises or setbacks that could prolong this horrific pandemic.

In this piece, we'll have a look at a few bear points that could result in steep losses for AC stock over the near term. While I'm still a long-term bull on Air Canada for investors with strong stomachs for turbulence, it's my opinion that the name is far too risky a proposition for the average investor who may be unaware of the full extent of the risks.

Air Canada's international focus could weigh if the pandemic lasts longer than expected

As a more internationally focused airline, Air Canada faces a tougher road to recovery than its domestically focused peers. If this pandemic drags on for longer than expected, either due to an unwillingness of people to have the vaccine administered or mutated strains that could threaten vaccine efficacy rates, Air Canada will likely be hit that much harder.

That said, AC stock has been hit much harder than many of its U.S. peers, some of which are within 20% of hitting pre-pandemic highs.

At the time of writing, Air Canada shares are sitting 56% below their January highs — a time that I'd rung the alarm bell on the stock, urging investors not to follow the herd by shrugging off the new slate of risks brought forth by the novel coronavirus.

Modest business travel recovery a huge negative for Air Canada stock

Many pundits expect that the travel recovery trajectory will be pretty muted, even after COVID-19 is conquered. Some bright people, including Bill Gates, seem to think that the pandemic will cause permanent destruction in the demand for business travel. In a recent sitdown with *CNBC*, Gates predicted that "over 50% of business travel" would "go away" in a post-COVID world.

Now, such destruction in business travel demand may be offset by pent-up demand for leisure travel once it's safe to take to the skies again. But one has to think that the continued rise of remote work trend does not bode well for business travel prospects over the long haul. As such, investors would be wise to weigh such longer-lived COVID-19 risks, even if they believe the pandemic will be over in the second half of the year.

In the meantime, I think ominous headlines relating to newly discovered COVID-19 variants will cause investors to re-evaluate their original reopening thesis, as the threat of a full lockdown doesn't appear to be going away anytime soon.

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