What Could Go Wrong for Air Canada (TSX:AC) Stock in 2021?

Description

Risky COVID-19 recovery stocks like **Air Canada** (TSX:AC) may not be Warren Buffett's cup of tea in this pandemic-plagued environment. But the Canadian airline has been to the liking of a handful of fearless contrarian investors with the pain tolerance and hunger for huge gains en route to the post-COVID world.

Warren Buffett sold his airline stocks too soon — or did he?

One of Warren Buffett's biggest 2020 blunders was that he sold his airline stocks too soon. But is it too early to conclude the man had been wrong to cut his exposure to the air travel industry, given the potential for airline stocks to retrace viciously in the new year?

While COVID-19 vaccines put the end of the pandemic in sight, there remains a haze of uncertainty that's clouding the vaccine timeline and the pandemic's end date. Once COVID-19 is conquered, it'll be off to the races for the airlines, as they look to recover after one of the worst crises in recent memory. And while such a recovery could propel Air Canada and its peers out of these depths, one should not view investments like Air Canada stock as being without risk, even for those with longer-term investment horizons.

Why? We're not out of the woods yet with this pandemic. And the post-pandemic air travel recovery has the potential to be slower-than-expected and wildly turbulent.

Air Canada: Don't discount the risks!

While Air Canada and its peers may be less risky than they were earlier last year when Warren Buffett sold his airline shares at a loss, there are still many uncertainties that could derail an overly-optimistic airline investment thesis. And this is why I don't see Warren Buffett re-accumulating shares of airline stocks anytime soon.

Mutated variants are being discovered in various geographies around the globe. While no COVID-19 variants have been proven to impact the efficacy rate of the slate of effective vaccines that have been rolling out in recent weeks, some of them, including the U.K. and South African variants, look to be more contagious.

As you may be aware, the more the coronavirus spreads, the greater the chances are of having more mutated variants. As such, the possibility of a future mutated variant that negatively impacts vaccine efficacy rates, while unlikely at this juncture, should not be ruled out entirely by investors, some of whom may have gone all-in on the reopening trades like Air Canada in recent months.

Things can’t get any worse for Air Canada stock, right? Think again…

If, in the unlikely event that we receive terrible news relating to future variants of COVID-19, Air Canada stock could plunge much farther. You see, just because AC stock has already lost 55% of its value from 2019 peak levels doesn’t mean it can’t lose another 55% of its value in a worst-case scenario. A cheap stock can always get cheaper. And while I don’t think such a worst-case scenario is likely, investors need to be aware of the risks and not think that AC stock is a sure ride back to 2019 heights just because we’ve got a handful of effective vaccines in hand, with more on the way.

In addition, the air travel recovery could have the potential to be far more muted than expected. Some pundits think that the demand for business travel may have been lost permanently due to the pandemic.

If such a loss in business travel demand is in the cards, any pent-up demand for non-business travel may only give the airlines a modest near-term boost, making it tough for a name like Air Canada to hit its 2019 highs over the near-term, as many hungry traders may be hoping for.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Coronavirus
2. Investing

Date
2025/09/13
Date Created
2021/01/19
Author
joefrenette