



Why Air Canada Stock Isn't a Sure Thing, Even With the Pandemic's End in Sight

Description

Air Canada ([TSX:AC](#)) is a wildly [popular](#) reopening play among Canadian investors looking to punch their ticket to the post-pandemic world. While Air Canada stock could have a multitude of upside once the pandemic dies down and consumers can safely take to the skies again, the stock still seems excessively risky. COVID-19 vaccines act as a light at the end of the tunnel.

However, as I've noted in prior pieces, it's still hard to tell just how far away the light is or if we could be pushed back farther away from the light.

Mutated variants of COVID-19 are a concern, and they could cause another wave or two of lockdowns. Such a scenario would put an even larger weight on Air Canada's shoulders. While management has done a great job of battening down the hatches, with cost cuts and a somewhat decent liquidity position, there's no telling whether the airline will need additional government assistance to get out of this crisis.

The COVID-19 pandemic will end, and Air Canada stock will skyrocket, right?

The overly-simplistic investment thesis in Air Canada is that in due time the pandemic will end. Once it does, Air Canada stock will be flying high again, as it looks to meet pent-up demand built during lockdowns and quarantines.

I believe the risk/reward with the name is far more complicated than just *when* the pandemic will end. And investors with the "once the pandemic ends" thesis should re-evaluate the potential downside risks. While Air Canada stock is far more investible than before **Pfizer** revealed its effective vaccine in November 2020, one must not expect the ride to be any less turbulent through 2021 and beyond.

Sure, bankruptcy is looking far less likely these days. But I don't think it should be ruled out in a bear-case scenario that sees this pandemic (and travel restrictions) last longer than expected.

How long until we see the new normal for Air Canada and its peers?

Under the assumption that (most of) the world reaches herd immunity and COVID-19 is eradicated in late-2021 or early-2022, then sure, Air Canada is a name that could realistically double over the next three years. That's a bull-case scenario, and frankly, I don't think the likeliest scenario.

If COVID-19 variants of concern affect today's vaccines' efficacy rates, Air Canada stock could sink to the mid-teens again before it can sustain its next leg higher. So, unless you've already got a balanced barbell portfolio, I'd prefer to invest in the reopening plays whose survival is not dependent on *when* the pandemic ends or when COVID-19 will be eliminated.

Numerous pundits do think that the pandemic will end but that the virus, COVID-19, will likely be sticking around, potentially for years.

Federally-mandated vaccine passports and harsher restrictions could be the new normal for those who seek to fly, even in the post-pandemic world. The implications on the airline industry are not yet clear. But they do not bode well for Air Canada investors who are expecting some sort of V-shaped recovery to 2019 levels.

My takeaway? Curb your [return expectations](#) when it comes to Air Canada stock, and don't assume that shares can't crash further just because we've got safe and effective vaccines that are rolling out.

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