Air Canada (TSX:AC) Stock Is About to Drop: When it Does, Buy it!

Description

Just when you thought we were out of the woods with a rebound underway, investors looking at **Air Canada** (TSX:AC) are still confused. Although the stock has been climbing, it still manages to be the lower line in the K-shaped recovery.

A K-shaped recovery occurs after a drop, when some industries rebound, while others continue to drop or stay stagnant. Right now, Air Canada is in the stagnant stage. The stock is up 123% as of writing since the March crash. However, it's still about 45% below its all-time highs.

So, with the K-shaped recovery on the way, what should investors do with Air Canada stock?

Recovery risks

Air Canada stock isn't alone in the airline industry. Across the board, airlines continue to suffer. And, unfortunately, airlines still have a long way to recover what was lost during the pandemic. Air Canada controls the market share of the Canadian airline industry, and, unfortunately, that means it's at a very high risk of losing quite a lot. It already has, currently holding onto just shy of $13 billion in debt.

Even with a vaccine underway, with most Canadians hopefully getting their first vaccine by the end of May, that's only our country. It could take years for the entire world to be vaccinated. Unfortunately, there are many countries that simply cannot afford the prices of the vaccine.

Air Canada, meanwhile, has had to significantly scale back its operations. Before the pandemic, it focused on U.S. business passengers on long-haul flights with a layover in Canada. It will have to shift this focus to short-haul flights, and that will be difficult. Basically, with all these troubles ahead of it, and significant investment behind it, Air Canada is likely to be swimming in debt for years to come. What this means is there is likely to be major drops, as earnings continue to come in lower and lower.

So … why buy?

Air Canada has made good progress in bailout talks with the federal government. This is the main goal for investors to invest in this stock during a price drop. While the stock is up right now, it's likely to drop come the next earnings report or even sooner if the company announces any delays to this bailout.

And the bailout might be a ways away yet. It's unlikely the government is going to hand out bailout cash to an industry that isn't able to fully recover or at least partially recover. And until that bailout comes, no refunds will be distributed to passengers who lost flights. While a deal is close, that doesn't necessarily mean a handout is coming any time soon.

So, any news of a delay will send the stock dropping. But investors need to remember that a bailout will eventually come! A drop will be an opportunity to pick up the stock for a significant discount. In fact, if you're willing to hold onto the stock for decades, you should see massive returns in a decade from now or sooner depending on the bailout.

Bottom line

It's true that airlines, specifically Air Canada stock, will continue to be battered during the pandemic and even after it's over. While Air Canada isn't an exception to the airline industry and will continue to be hit hard, it does own the largest market share in Canada and will eventually come back from this.

While it might be a hard pill to swallow in the short term, in the long term, you'll be happy you picked up this stock. It's unfair to look at the crash back in 2012 when Air Canada was almost no more, but if you look at how much it grew between 2016 and 2020, you can get an idea of where this stock is headed. Growth at that time was about 425%! From trough to peak, if you had invested $10,000 in January 2016 and sold in January 2020, you would have had a portfolio worth $69,252! Today, if you invested $10,000 and waited for all-time highs, it would be worth $17,250.

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alegatewolfe