This Week's TSX Top Pick: Air Canada Stock (TSX:AC)

Description

Air Canada (TSX:AC) may be a high-upside play on an economic recovery, but don't expect it to be smooth sailing. It's going to be a turbulent ride, and for that reason, AC stock isn't going to be everybody's cup of tea. The big airlines certainly weren't Warren Buffett's cup of tea in this pandemic-plagued environment.

Although we're inching closer and closer to the end of this socio-economic nightmare, there's still no telling how farther we need to march before we're at the light at the end of the tunnel. In addition, there's still no telling if we're due to take a step or perhaps several steps back, leaving the light farther away than many optimists may expect.

The vaccine rollout has been going well in the states. Canada is lagging behind modestly, and that could act as more pressure for Air Canada than its peers to the south that could be over two months closer to the light. Regardless, Air Canada's international focus is a major negative versus the likes of many of Warren Buffett's former U.S. airlines. And for that reason, Air Canada stock deserves to trade at a discount and shares of AC aren't as cheap as they may seem, even though they seem like a relative bargain at this juncture.

Not without its fair share of risks

There's a tug of war between vaccines and variants of concern. And right now, it seems like the vaccines have the major edge. This could change quickly, however, as another potential round of lockdowns could be in the cards as soon as April. Various parts of Europe are already on lockdown to prevent a variant-driven third wave from spiralling out of control.

Third wave or not, Air Canada investors need to temper their expectations with AC stock. Nothing against the management team. They've done an incredible job of weathering the storm through cost cuts, liquidity raises, and all the sort. The waves have just been rougher for Air Canada than the likes of its peers to the south.

Why AC stock still makes sense to buy at these heights

Despite Air Canada's "tougher" recovery trajectory and the high risk that the stock could retrace gains posted over the last few months, I still view AC stock as the best airline stock to own and favour it over any of the U.S. ones.

America can afford to let one or even two major airlines go belly up. Canada really can't. As such, I view Air Canada as having a critical lifeline in a worst-case scenario that sees this pandemic drag on through 2022, sparking the need for further government relief to navigate through travel restrictions.

In numerous prior pieces, I've been both a raging bull and a bear. When the stock was in the gutter at $15 and change, I pounded the table in spite of the dire outlook. After the stock blasted off to the high $20s, I urged investors to sell.

With the stock off over 7% from its 52-week high, I'd be more inclined to be a buyer on the way down. The current drop, I think, will be the last severe one caused by COVID-19. There's tremendous pent-up demand for air travel, and the more jabs we have, the greater demand will be going into the summer season, a time when COVID-19 waves tend to go into hibernation.

Could it hibernate for good or die off this time around? Nobody knows. Regardless, I think investors should treat a potential third-wave-induced round of selling in AC stock as a buying opportunity.

I'd start here and keep buying on the way down.

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