



Air Canada (TSX:AC) Can't Sink to \$0, But How Low Can it Go?

Description

Air Canada ([TSX:AC](#)) stock has been under considerable [pressure](#) through most of 2020. While 2021 and the vaccine rollout bodes well for the once high-flying airline kingpin, investors must understand the full extent of the risks, so they're not put in a spot to panic sell should things head south again.

The slate of safe and effective COVID-19 vaccines could point to the (sustained) return of air travel later in the year, but I believe such positives are already baked into shares of Air Canada here.

At this juncture, investors are looking past the coming quarterly flop towards the summertime, which could very well see a meaningful recovery in air travel. Indeed, there are reasons to be optimistic as the reopening trade heats up. That said, pandemic headwinds are in full force, and they could pick up, as the war between vaccines and variants takes it to the next level.

COVID-19: The war between vaccines and variants

As I've noted in prior pieces, there is light at the end of the tunnel. But it remains tough to gauge just how far away that light is and if we're at risk of taking a few steps back.

I think a handful of risks, most notably coronavirus variants of concern and the threat of an April lockdown, could bring forth a steep sell-off in the air travel trade, at least over the near term. It's tough to say whether the variants or vaccines have the upper hand at this critical market crossroads. It's nice to think that the vaccines could eliminate the coronavirus and end this horrific pandemic. However, the road to [the post-pandemic world](#) may not be nearly as smooth as some investors may think it'll be, especially for overly optimistic investors who've been piling into reopening trades like Air Canada.

Why Air Canada probably won't sink to \$0

Air Canada is a risky investment, but the stock is extremely unlikely to fall to zero. Fellow Fool Amy Legate-Wolfe thinks that AC stock could collapse to zero in a worst-case scenario, citing that another lockdown-filled year would surely end in the bankruptcy of Canada's top airline.

Even if 2021 is as bad or worse than 2020, I still don't see Air Canada falling to zero. Adjusted cash burn rates jumped to \$15 million per day in the latest quarter, up from \$9 million per day in Q3. And while Air Canada's balance sheet leaves limited room for error, I still think the federal government will be ready and willing to do everything under its power to ensure its top airline doesn't go down at the hands of the insidious coronavirus.

Unlike numerous airlines south of the border, Canada can't let Air Canada fail. It'd be costlier over the long term to let Air Canada go down. As such, I view Air Canada stock at \$0 as an impossibility, even if worse comes to worst and this pandemic takes an ugly turn.

Just because Air Canada won't collapse to zero doesn't mean you should own it here, though. The stock could easily crumble into the teens or even the single digits in the nightmare scenario that Legate-Wolfe outlined in her recent article.

My takeaway on Air Canada stock?

Wait for Air Canada's latest rally to reverse. Numerous European countries are back into lockdown, and Canada could suffer the same fate in April. Should Air Canada nosedive to the low \$20s, I'd get ready to start nibbling.

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Date

2025/10/02

Date Created

2021/03/26

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