



Air Canada (TSX:AC) Stock: The Sky's the Limit From Here

Description

Air Canada's ([TSX:AC](#)) recent stock surge has likely surprised many investors. Since February, its stock has rallied almost 30%! It has likely lead to many wondering if the recent 10% [pullback](#) might be a good entry-point.

A good time to buy Air Canada stock?

Well, it depends on your risk tolerance. If you can afford to risk a small speculative position in your larger portfolio, then perhaps it is okay. However, if you are betting everything on Air Canada as a pandemic recovery play, I would consider rethinking.

The pandemic has severely damaged Air Canada's business. Undoubtedly, people are eager to travel and fly again. Chances are good that domestic travel routes could one day return to pre-pandemic norms. Similarly, international travel will certainly (and hopefully) be a thing people do again.

Air Canada stock has too many unknowns

I suppose my greatest concern is surrounding the many unknowns facing Air Canada. There are many unknowns about travel restrictions and quarantine rules in Canada. How long will people have to quarantine upon entry into Canada and likewise in other nations?

There are many unknowns about international travel volumes as well. How long will it take before vaccines are largely deployed in Canada? Will people feel comfortable flying abroad for eight or more hours on a contained air capsule as they did prior to the pandemic?

Finally, there are many unknowns as to how long the capital and debt markets will continue to support Air Canada. Last year, Air Canada recorded a net loss of \$4.6 billion. Net cash from operating activities deteriorated by \$8 billion.

A cash drain right now

In contrast, net cash flows from financing activities increased over \$6 billion. The company has had to replace lost cash flows with an ever-growing debt burden. In 2020, the company burned \$13 million a day, just to operate. As of right now, I don't see many signs of that changing.

Combining all the uncertainties along with the unsustainable financial position and I just don't think Air Canada is a stock to mess with yet. Unfortunately, the runway for this stock isn't long enough for it to safely get off the ground. Perhaps, when passenger volumes are up, it might. However, given the current circumstances the stock looks pricey and speculative.

A transportation stock I'd rather own than Air Canada

If I wanted to own a transportation stock that could soar in the next few years, I'd be looking at **Canadian Pacific Railway** ([TSX:CP](#))([NYSE:CP](#)) instead. Let's be honest, Canadian Pacific will forever be grounded to its network of iron railroads. Yet, I see many catalysts that could make its stock take off over the next few years.

Firstly, and obviously, is Canadian Pacific's [deal to acquire Kansas City Southern railroad](#) for US\$25 billion (including debt). The companies have much in common. Consequently, a friendly deal should make for a friendly partnership going forward.

As well, the deal vastly expands CP's network to operate against the big Class 1 railroads. The deal will rapidly expand CP's network from Canada to Mexico, the North Pacific to the Gulf of Mexico, providing a lot of optionality for present and future customers.

Second, even if the deal doesn't work out, CP has a great leadership team and one of the best operating ratios in the industry. This company is relentless about operating efficiently and expanding profit margins. As with Air Canada, Canadian Pacific stock should benefit from stronger volumes in a post-pandemic economic recovery. Unlike Air Canada, Canadian Pacific stock is already hugely profitable, even despite the pandemic.

The bottom line

Rather than speculating, I want to own a business that is succeeding right now. I also want to own a business that has ample catalysts for growth. Today, I can say that about Canadian Pacific, but unfortunately I can't say the same for owning Air Canada stock.

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Author

robbybrown

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