



Air Canada (TSX:AC) Stock: A Heads or Tails Probability?

Description

Air Canada ([TSX:AC](#)) stock is a perfect example of head or tail probability. The first lesson of probability starts with a toy example, the toss of a coin. When you toss a coin, there is a 50-50 chance of a head or a tail. Unless the coin defies gravity and stands, you will either win or lose. Such is the case with Air Canada. The AC coin has been tossed. Now there is an equal probability of the stock rising past \$30 or falling to \$20 or below.

Air Canada is hovering in the middle

After a January tail (dip) and a February head (rally), Air Canada stock is hovering between \$25 and \$27. In January, the stock fell to \$20 as the airline cut routes till April 30 amid the second wave of the pandemic. In February, the stock surged as the airline boss revived hopes of [bailout](#) talks. March and April are slow as the airline's flight restriction will last till April 30.

At the time of this writing, AC is hopeful to resume routes to vacation destinations like Jamaica, Mexico, and Barbados in early May. It is also hopeful of a sizeable bailout from the government.

Now the coin can fall on either side Here's what to expect if it is a head or a tail.

The probability of a head

AC stock could rally past \$30 and make a new pandemic high of \$32 or more if it's a head. The first probability is that AC is hoping the Canadian government replaces the 14-day mandatory quarantine for every person travelling from abroad with a more scientific method. It has proposed a COVID test at the airport and quarantine only for those testing positive.

Another probability of a head is if the government gives more than a billion-dollar bailout to AC, preferably in the form of grants or low interest, long-term loans. The third probability could be if the vaccine rollout goes as planned and the lockdown starts easing after September.

If any one of the three probabilities comes true, AC stock will make a new high. But the irony is there is nothing AC can do about it. At the most, it can hang in there, keep itself afloat, reduce cash burn, and be ready to fly when the skies open.

The probability of a tail

The opposite of head is tail, and there is an equal chance of things going south from here. If there is a tail, AC stock could fall to \$20 and slump to \$15 or even \$0 in the worst-case scenario. The most recent situation in hand is the April 30 [curfew](#) the government has put on AC. If there is a third wave of the pandemic by April, the situation will worsen for AC. Germany and France have already imposed lockdowns, whereas the United Kingdom is easing the lockdown.

The second probability is that the government bailout is not attractive enough to hold the airline through the tough times. The third probability is that the vaccine rollout takes longer or faces several hurdles like a virus mutation that makes the vaccine less effective. This will bring the entire world back to square one, and no bailout could prevent AC from bankruptcy.

In the last scenario, AC stock could go to \$15 and gradually to \$0. But that is the worst-case scenario.

Winning the toss

When you know the best and the worst-case scenario, you can act accordingly to win the toss. There are three chances for the stock. The first toss is the April 30 curfew, you sell the stock if it is lifted and buy the stock if it is extended. You do the same with the second toss, the bailout, heads you sell, tails you buy.

But the third toss of vaccine rollout and the end of the pandemic is a tricky one. Here your game changes: heads you buy tails you sell. Don't leave your hard-earned money to chances. There are better stocks with a higher probability of growth.

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Author

pujatayal

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