



Air Canada (TSX:AC): Is a Nasty Plunge on the Horizon?

Description

Air Canada (TSX:AC) stock is the ultimate [reopening play](#) for Canadian investors. With vaccines slowly rolling out across the country, optimism is in the air. But in the race between COVID-19 vaccines and variants, investors should expect the lead to change numerous times throughout the year.

For now, vaccines are ahead. But that could change without a moment's notice. Researchers in Israel recently discovered that a South African variant might limit the protection of **Pfizer's** safe and effective vaccine. That's bad news, especially because an overwhelming majority of Canadians yet to have the opportunity to be vaccinated.

COVID-19 risks ahead

Could the vaccine be obsolete by the time most Canadians have had a chance to book their shots?

Probably not. Pfizer is working on boosters in response to insidious variants that pop up. That said, the vaccine rollout really needs to pick it up, as the war with the horrific virus takes it to the next level. Bad variant news could weigh most heavily on the wildly popular reopening plays like Air Canada, which is up over 82% from its October 2020 bottom.

The federal government could ramp up international travel restrictions to further curb the spread of COVID-19 variants. That said, there's always the risk that a few variants will slip through, despite all the precautionary measures. That's the nature of COVID-19, and it won't be an easy road to the post-pandemic environment, especially for an internationally focused airline like Air Canada.

Could Air Canada stock be headed for a crash landing on negative COVID-19 variant news?

Anything is possible. The stakes are [alarmingly high](#) for Air Canada stock here, given shares are closer to a 52-week high than its 52-week low. While I don't suspect AC shares will retest their lows this year,

I'm not yet ruling out a vicious pullback to the teens, especially given the bad variant news and the vaccine rollout, which has gone far slower on this side of the border.

If the news gets really bad, I suspect Air Canada stock could fall under considerable pressure and would advise against loading up on shares at this critical market crossroads. The risks remain elevated, and I think the recent correction from 52-week highs doesn't fully reflect the impact of such risks.

In numerous prior pieces, I've noted that AC stock deserved to trade at a discount to many of its peers in the states. Air Canada's international focus and the slower vaccine rollout were two top reasons that AC stock was not lifting off as high as some of its U.S. peers. Such negatives are likely already baked into the stock, but should variant news grip investors with fear again; I suspect all the airlines are at risk of collectively nosediving.

Air Canada: The positives

Although Air Canada has many shortcomings versus its American peers, it's still my preferred airline stock. Why? It's Canada's top airline, and the country can't afford to let it go under. Unlike the U.S., which could let one or two airlines crumble, Canada needs Air Canada to survive. As such, I find the bankruptcy risks are low, even if the balance sheet were to find itself on life support in the unlikely event that COVID-19 variants grip the markets with fear once again.

In any case, Air Canada is going to be a turbulent ride, and I'd urge you to dollar-cost-average into a full position if you're keen on betting on the airlines for a late-2021 reopening, which may or may not be in jeopardy.

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