



## \$1,000 Invested in Air Canada (TSX:AC) Stock Last April Would Be Worth This Much Today

### Description

It's just been over a year since the COVID-19 pandemic drove equity markets into bear market territory. Major indices wiped off 35% in investor wealth as the dreaded virus decimated companies in the airline, travel, hospitality, retail, energy, and restaurant space. Shares of **Air Canada** ([TSX:AC](#)) were trading near record highs at the start of 2020. It was in fact one of the best-performing stocks on the **TSX** in the prior decade delivering gains of 3,500% in that period.

However, Air Canada stock fell from \$52 in January 2020 to a multi-year low of \$9.5 in March. The stock managed to double in the next month to trade at \$19.43 in April last year. This means the stock is up close to 40% in the last 12 months. Thus, a \$1,000 investment in Air Canada stock 12-months back would be worth close to 1,400% today.

### Air Canada part of a capital-intensive sector

The airline sector is a highly capital-intensive one. According to Warren Buffett, a durable competitive advantage has been elusive for multiple decades for companies in this space. Buffett explains while airline companies have managed to improve top-line over the years it was difficult to translate this growth into sustainable profits. This can be attributed to a [significant increase in competition](#) and reinvestments to increase passenger capacity as well as the addition of new traffic routes.

Warren Buffett's **Berkshire Hathaway** exited its stake in all four airline stocks south of the border for this very reason. Buffett also confirmed he made a mistake by investing in this highly cyclical sector.

The airline sector is expected to face multiple near-term headwinds as the world continues to be impacted by COVID-19. The shift towards work-from-home might be a permanent feature going forward impacting the high-margin business travel segment of Air Canada and its peers. Further, the slow rollout of vaccines in most regions including Canada and Europe might also delay economic recovery which suggests the global population will not be comfortable traveling for leisure at least until the end of 2021.

## What's next for investors?

Air Canada stock is valued at a market cap of \$9 billion, suggesting that it's trading at a forward price to sales multiple of just 1.25. Bay Street analysts expect the company to [improve sales by](#) 22.8% to \$7.16 billion, which is significant that Air Canada's record revenue of \$19.13 billion reported in 2019.

While sales are forecast to almost double to \$14 billion in 2022, we can see it will take a few years for air travel to reach pre-COVID-19 levels. Analysts also expect Air Canada's loss per share to narrow from \$14.96 in 2020 to \$0.17 in 2022.

Air Canada and most other airline stocks should be expected to remain turbulent this year. Analysts have a 12-month average target price of \$28.7 for Air Canada stock indicates a 10% upside from current levels. This stock remains a top pick for investors with a high-risk appetite given the high volatility associated with companies in this sector right now.

### CATEGORY

1. Coronavirus
2. Investing

### TICKERS GLOBAL

1. NYSE:BRKA (Berkshire Hathaway Inc.)
2. TSX:AC (Air Canada)

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