Air Canada (TSX:AC): The Risks May Outweigh the Rewards

Description

Air Canada (TSX:AC) recently got another round of financial support from Ottawa last week. But just because the federal government has taken a stake in the Canadian airline doesn't mean you should, especially if you'll stand to get a cost basis that's considerably higher (Ottawa is reportedly purchasing $500 million in AC shares at near $23 levels).

default watermark

Now, I have no idea if the government will get a good return on its investment. Regardless, I don't think it had much of a choice. In numerous prior pieces, I've highlighted that Canada couldn't afford to let its top airline go down, as the U.S. could have. Who knows? There may very well be one too many U.S. airlines for this "new normal" kind of environment.

In any case, I think investors would be wise to wait for Air Canada stock to pull back, potentially to a cost basis below that of what Ottawa paid for their latest stake. While I do think Air Canada will find its way over the next few years, I don't think the name's risk/reward profile is nearly as attractive as it was when I originally pounded the table at near $15.

Air Canada: The risks may not be worth the rewards

Significant risks still exist for the top Canadian airline. And I'm not just talking about COVID-19 variants that could stand in the way between the post-pandemic world and an environment filled with intermittent reopening rollbacks and lockdowns.

Even if the pandemic ends in late 2021 or early 2022, masks, social distancing, testing, and all the sort aren't going anywhere anytime soon. Vaccine passports may become a must for travellers, and I suspect internationally focused airlines like Air Canada have a tougher road to recovery in the post-COVID environment.

Of course, there's always a chance that variants could grip the markets in fear again. The low-probability, high-impact bear-case scenario should not be discounted by investors, especially those shy about turbulent levels of volatility. At this critical market crossroads, I view more opportunity in other TSX stocks, which may have a wider margin of safety and more upside going into year's end.

Insisting on a wider margin of safety

Although Air Canada has the financial support it needs, should things get uglier, I can't say I'm a fan of the cash-burn rates. Although Air Canada isn't bleeding as much cash as it was through the worst of this pandemic, I still think multi-million-dollar daily cash bleed makes AC stock a company whose stock price depends on the timely end of this horrific pandemic.

The slow vaccine rollout and insidious variants may very well bring forth further rounds of financial aid. While I don't think Air Canada will be an abysmal public investment like **Bombardier**, I do think there are plays out there that are capable of thriving, regardless of when the pandemic ends.

Beyond Air Canada: Investing in air travel without betting on the airlines

default watermark

Flight simulator play **CAE** is a company that can allow Canadians to benefit from the broader recovery in air travel without having to worry about the speed of the vaccine timeline. Many out-of-practice pilots will need to hit the simulators again before they take to the skies. With U.S. airlines likely to come roaring back first, I think CAE is a compelling way to profit for 2021. While there's still a ways to go for the simulation tech company, the name is better diversified than an airline with an arguably more compelling risk/reward at this juncture.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing
2. Stocks for Beginners

Date
2025/09/12
Date Created
2021/04/19
Author
joefrenette

default watermark

default watermark