TFSA Investors: Should Air Canada (TSX:AC) Stock Be Part of Your Portfolio?

Description

Investing in the stock market is not an easy process. There are thousands of stocks that you can buy, but only a handful of them are quality companies that can create wealth over the long term. In the decade prior to the COVID-19 pandemic, one of the top-performing stocks on the TSX was **Air Canada** (TSX:AC). Between 2010 and 2020, Air Canada stock was up by an impressive 3,600%.

However, it has since lost 50% in market value. Does this make it a good contrarian bet for your TFSA (Tax-Free Savings Account)?

The TFSA contribution room is $6,000 for 2021

The TFSA is a flexible registered account, and the contribution limit for 2021 stands at $6,000. While contributions to this account are not tax-deductible, withdrawals in the form of interests, capital gains, and even dividends are exempt from Canada Revenue Agency taxes.

The TFSA was introduced back in 2009, which means the cumulative contribution room for several Canadians will be $75,500. It makes sense to allocate a significant portion of your investments towards low-cost ETFs (exchange-traded funds) such as the S&P 500, especially if you don't have the time or expertise to invest in the stock market.

Alternatively, you can also use a small portion of your TFSA contributions to buy and hold blue-chip Canadian stocks and benefit from stellar gains in the long term. While equity markets are trading near record highs due to a stupendous rally in tech stocks, is it time to add consider post-COVID-19 stocks such as Air Canada?

Air Canada stock will remain rangebound in 2021

While Air Canada stock is trading significantly lower compared to its record high, investors should note that it has also managed to more than double from bear market lows.

The airline sector is a capital-intensive one and is highly cyclical as well. Investment mogul Warren Buffett explains that a durable competitive advantage has been elusive for airline companies for several decades. According to Buffett, airlines have managed to increase top-line growth over time but have found it difficult to translate this into sustainable profits. This is due to a rise in competition and the need to pump in capital to add new traffic routes.

Last April, Warren Buffett's **Berkshire Hathaway** exited its stake in all four major airline companies in the United States. Buffett claimed he made a mistake by investing in airline companies and will never do so again.

The global economy is expected to remain sluggish as countries continue to grapple with the rising number of cases and the slow rollout of vaccines. It also suggests airline companies will face near-term headwinds, as it might take another two years for air traffic to reach pre-COVID-19 levels.

The shift towards working from home might also impact the high-margin business travel vertical of most airlines, including Air Canada post-COVID-19.

The Foolish takeaway

Air Canada's loss is forecast to narrow to $6.74 per share in 2021 compared to its loss of almost $15 per share in 2020. Analysts expect the company to break even in 2022. Further, while sales are expected to rise by 21% to $7 billion in 2021, they might double to $14 billion next year. Bay Street has a 12-month average target price of $28.5 for Air Canada stock, which is 12% above its current trading price.

Air Canada stock remains a good pick for investors with a high-risk appetite and who are betting on an economic recovery to push share prices higher in 2021 and beyond.

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