



Airline Stocks: Should You Buy or Sell Right Now?

Description

According to Statistics Canada, 2020 was one of the worst years for airlines. They saw a significant decline of 71.8% in the number of passengers that took to the air. Both domestic and international air travel was affected, and it dropped to the lowest levels in about three to four decades.

These numbers represent how utterly devastated the airline business was in 2020, and it's easy to see why. The number of deaths due to COVID spiked in the country in May 2020, and it took a lot of time to get that number down to single digits, only to see it spike again in early 2021.

Even though 2021 was supposed to be a year of recovery, and it was for most businesses, airlines weren't one of them. And now investors are waiting to enter 2022 to see if there is hope for these stocks to reach sky high again. But if you want to make a buying, holding, or selling decision right now, it might be different for different airlines.

The premier airline in the country

Air Canada ([TSX:AC](#)) is responsible for most of the international traffic to and from Canada and a decent amount of local air traffic. It also operates the largest fleet (by far) and sizeable staff, both of which are massive cash drains when there is minimal operational income coming in. The airline had to cut thousands of jobs and ground the bulk of its fleet to [minimize the bleeding](#), and the net cash burn was still about \$8 million a day in the last quarter.

The stock has been quite static, especially since June. It's diligently sticking to \$25-a-share reference point and isn't moving too far in either direction of this number. The next quarter's results might trigger a rise to \$30 or more, but it's a point of speculation right now.

Air Canada stock is expected to reach its pre-pandemic valuation, but it can easily take a couple of years or even more. If you buy now, this growth will result in 100% gains. And unless you'd bought the airline when it was trading at the rock-bottom price of around \$12 per share, selling now might be a mistake, and you should hold on to the company and wait for the full recovery.

A regional airline

[The stock](#) of junior airline **Chorus Aviation** ([TSX:CHR](#)) is doing nearly as bad as Air Canada. It's down 52% now and has been slipping since its "recovery" peak in May. In the second-quarter earnings result, the airline disclosed net earnings of \$21.5 million, which is about half of what the airline earned in the second quarter of 2019 (before the pandemic).

Even at its current discounted price, the airline is quite overvalued. And one major difference between it and Air Canada is that it was never a great growth stock, even before the pandemic devastated the industry. Still, if it's poised to reach its pre-pandemic valuation, you are looking at about 100% gains if you buy now. Selling now would most likely be a waste since the chances of the company going under now are minimal.

Foolish takeaway

One of the best indicators of a true recovery would be the vacation travel booking numbers next year. If the fear of the pandemic is truly behind us, and people are once again comfortable with flying, then both Air Canada and Chorus might experience genuine operational recovery.

It would stop the bleeding and mark the beginning of a proper financial recovery. So, buying them now when they are "[undervalued](#)," in a way, might promise some recovery-fueled growth.

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