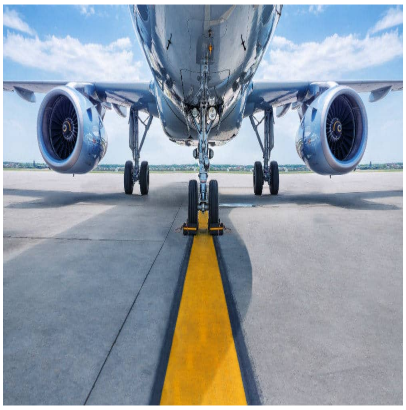

Still Holding Air Canada Stock? What Should You Do?

Description

Are you a firm believer in the buy-and-hold strategy? That is likely why you are holding on to **Air Canada** (TSX:AC). The stock is down more than 55% from its pre-pandemic levels. And if you'd bought it at its post-pandemic high, you are probably sitting on a 28% loss. While the buy-and-hold strategy works in many cases, it is not a one-size-fits-all investment strategy.

Does Air Canada stock meet the buy-and-hold requirements?

Some will say that with a buy-and-hold strategy, if you buy a stock today and hold it for 10 years, it will grow your money 10-fold. But there are a few prerequisites a stock should meet to deliver that kind of return:

- Firstly, the stock should be in a growing industry currently going through short-term headwinds.
- Secondly, the company should have strong management and a robust balance sheet to withstand losses.
- Thirdly, the stock should have the scope to make a profit and grow in the future.

As Warren Buffet says, "If you aren't willing to own a stock for 10 years, don't even think about owning it for 10 minutes."

Do you see Air Canada growing profits 10 years from now? The airline industry operates on wafer-thin margins. The best it can do is break even in the next five years and maybe return to marginal profits in 10 years. I don't see scope for exponential growth or threefold capital appreciation in 10 years, and dividends are off the table.

In the best-case scenario, you may double your money in 10 years, provided AC manages to revive its business. Let's see the possibility of that.

Air Canada's outlook

Air Canada is seeing a sharp recovery in demand, as people are flying again. But this revenue growth will take a while to translate into profits, as high oil prices have put downward pressure on profits. To add to the worries, the World Bank warns about the risk of stagflation, where prices keep rising while economic growth slows. So, what does stagflation have to do with Air Canada?

The key reason for rising prices is the Russia-Ukraine war, which has disrupted global supply chains. Air Canada can pass on the cost of fuel price to customers. But what about the interest expense on its huge $23 billion debt sitting on its balance sheet. In its latest quarter, it paid over $200 million in interest expenses, and this is before the interest rate hike. The central bank is on a spree to hike interest rates at an accelerated rate till mid-2023.

I don't see Air Canada breaking even at any point before 2024. And even after that, there won't be a sudden jump in demand like it did after the pandemic restrictions eased. Online meetings, digital transactions and documentation have reduced the need for business travel, which was the epicentre of airline profits. Unless planes start flying on hydrogen fuel, there is no secular trend on the horizon that could grow Air Canada stock three-fold to over $60 by 2030 or 2032.

What should you do?

You are probably holding AC stock because you purchased it at its 2021 high above $26. The macro and industry trends signal that you would be better off selling the stock at $23. Just drink the poison now. You can recover this $3-$4 per share loss in another stock in a long-term growth trend, like **Descartes Systems**. This supply chain solutions company can help you recover losses on AC and double your money in five years, which is half the time AC would take.

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