

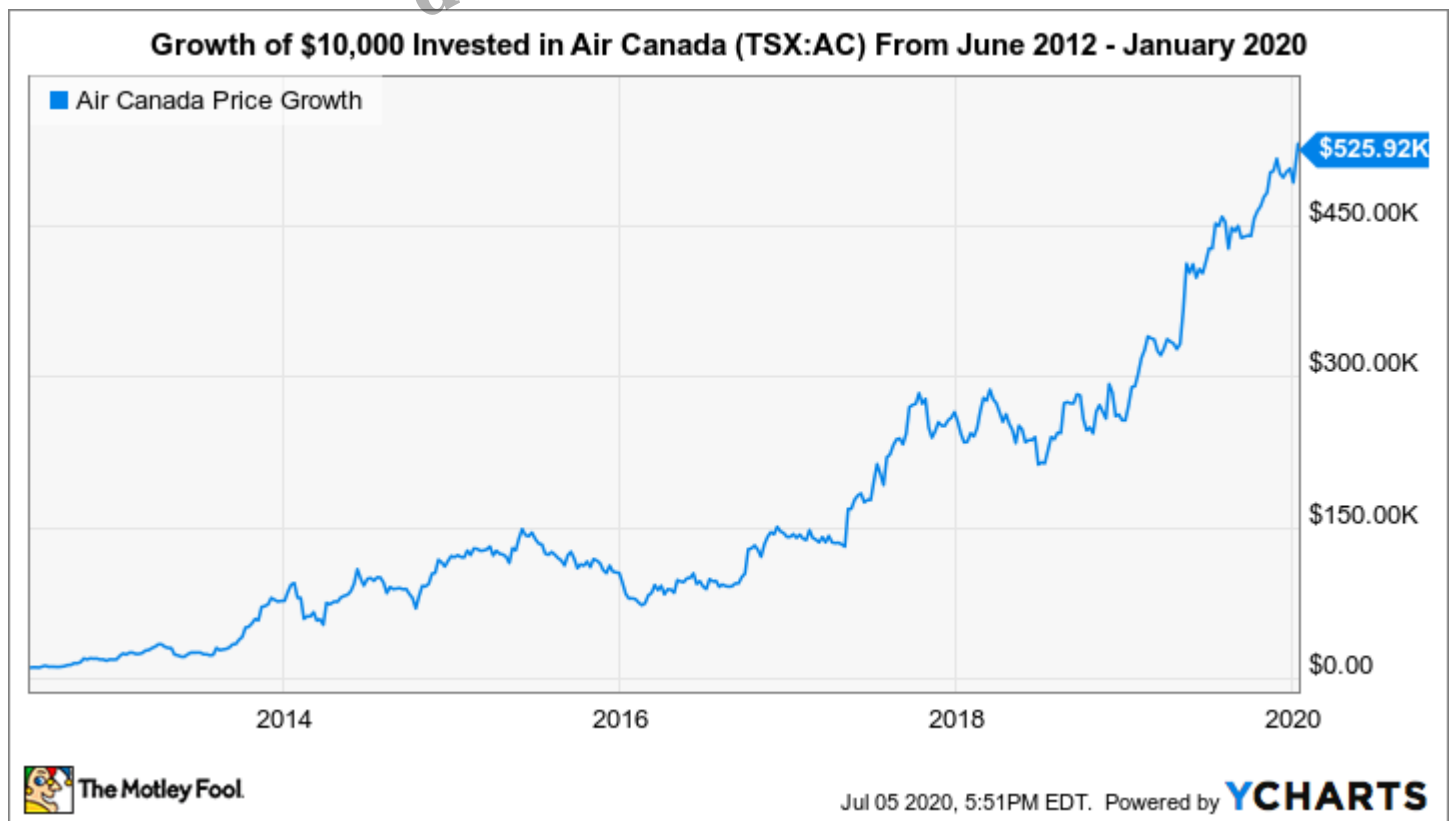


Air Canada (TSX:AC): Investing \$10,000 in 2012 vs. 2020

Description

Back in 2012, shares of **Air Canada** ([TSX:AC](#)) could be had for under \$1. Eight years later, in January 2020, shares were trading above the \$50 mark. This represents over a 5,000% gain in less than 10 years. Air Canada is currently trading near five-year lows. Many investors are therefore rightfully asking whether 2020 will present the same opportunity for outsized gains.

However, due to the very different economic environment that existed for airlines in 2012, we are unlikely to see Air Canada's stock replicate the level of success we witnessed between 2012 and 2020.



AC data by [YCharts](#)

Oil price dynamics

In 2012, oil prices hovered around \$100 per barrel. Jet fuel prices are heavily dependent on the price of oil. Heading into 2012, this would have been a significant headwind that the airline faced, as jet fuel is Air Canada's single largest expense item.

This would have been priced into the stock, as investors were pessimistic about profit margins. That all changed very quickly in 2014, however.

The price of oil collapsed in 2014 — the beginning of the current protracted bear market for oil. However, this was a boon for Air Canada. Fuel costs fell from \$3.7 billion in fiscal year 2014 to \$2.5 billion in [fiscal year 2015](#).

Oil prices are currently relatively low. It is unlikely that oil prices will drop significantly below \$40 for an extended period of time, as many producers are unprofitable with oil below \$40 per barrel. If prices remain low for long, production will come offline and prices will rise.

The problem for Air Canada is that oil prices are currently near their effective lower bound. Thus, Air Canada simply does not stand to benefit from a significant and unexpected long-term drop in oil prices like it did in the 2012-2020 period.

On the contrary, if oil prices continue to rise, this will significantly crimp Air Canada's profit margins and therefore [limit Air Canada's upside](#) potential.

Travel Industry Outlook

Needless to say, the outlook for the North American and global travel industry is bleak. Largely speaking, the travel industry can be divided into business travel and leisure travel. Neither sub-segment has a particularly rosy outlook at this point in time.

The pandemic has halted a significant portion of business travel, which has resulted in more individuals working from home and foregoing or deferring non-essential business travel. Travel for business conferences and face-to-face meetings has all but stopped, which is an immediate concern.

However, it could also snowball into a longer-term impact if businesses begin to re-evaluate their travel policies. The pandemic has shown that many of the tasks for which business people have historically travelled can be accomplished remotely using technology. None of this bodes well for business travel growth.

Leisure travel seems like it may recover sooner than business travel. This is largely due to pent-up demand and the fact that you can't easily replicate a vacation with technology. However, with the economic fallout from the pandemic, there may not be as many customers who are financially able to afford vacations.

The travel industry currently faces significant health and safety concerns, as well as affordability

concerns. For these reasons, it is far from certain that demand for air travel will increase at the same rate that it did from 2012-2020.

Takeaway

In order for Air Canada's stock to repeat its 2012-2020 success, it would need to rise above \$800 by 2028. This seems quite unlikely in the current economic environment.

Demand for air travel will recover at some point in the next few years. Air Canada will certainly benefit from this recovery. However, the state of the oil market and the outlook for the travel industry seems to indicate that Air Canada's stock is unlikely to enjoy the explosive growth witnessed between 2012 and 2020.

This doesn't make it a bad stock to consider at these prices. Rather, it just means that investors need to temper their expectations.

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Date

2025/06/30

Date Created

2020/07/10

Author

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