Air Canada (TSX:AC) Stock Lost $3.9 Billion in Market Cap in 2 Months

Description

Waves of negative sentiment are causing a 2019 high-flyer to lose altitude. **Air Canada** (TSX:AC)(TSX:AC.B) is nosediving and has lost $3.9 billion in market capitalization thus far since January this year.

Through no fault of its own, Canada's flag carrier is experiencing brutal beating. The business of this $9.35 billion airline company is suffering because the travel industry is grinding to a halt. With the coronavirus spreading, countries are closing borders. Suddenly, the world's best airline stock is grounded.

Travel industry in distress

Air Canada was a top performer last year after posting gains of 86.86%. From $25.96 on December 30, 2018, the share price rose to $48.51 to cap 2019. Also, Bloomberg listed the airline company as one of Top 10 **TSX Composite Index** stocks in the past decade (Rank no. 4). AC's total return for the period was 3,680%.

Investors have short memories. Their focus is on the present rather than on Air Canada's sterling performances in 2019 and the last 10 years. As of writing, Air Canada is down to $34.57 or a loss of 28.74% year to date. The hope now is for the cure or containment of COVID-19 to come soon.

Top airlines, including Air Canada, have suspended flights to China to help limit the spread of the virus. However, industry revenue is declining fast. According to analysts from Citi Research, China makes up nearly 13% of global aircraft capacity.

Flight cancellations are growing in numbers. The suspension by Air Canada of all flights between Canada and China has been extended to April 10, 2020. Due to weak market demand, the daily non-stop flights between Toronto and Hong Kong are likewise suspended until the end of April 2020.

Other challenges

The coronavirus is not the only challenge Air Canada is facing, however. In Q4 2019, the effect of the737 MAX fallout is already showing. About eight billion available seat miles were lost due to the no-fly order for the **Boeing** aircraft. The company had no choice but to fly the more expensive replacement aircrafts.

Air Canada's net income for the said quarter fell by $8 million, while operating expenses increased by 6%. The impact of the grounding is enormous given that the company has 24 MAX in its fleet. With the continued absence of the MAX planes, Air Canada expects aircraft maintenance expenses to increase by 15% ($150 million) this year.

For the full year 2020, analysts are estimating the carrier to post a 10% increase in EBITDA, or $4.05 billion. The 2019 EBITDA was $3.363 billion, a $423 million improvement versus 2018.

Guarded optimism

Air Canada's CEO Calin Rovinescu is assuring investors that the company can overcome challenges as it did before. Management is looking to complete the merger with **Transat A.T.** by the first half of 2020. A new loyalty program, — which should be the best in the world — is also coming soon.

Rovinescu was the chief architect of Air Canada's comeback from near bankruptcy in 2008. However, his executive abilities can't save the company from the coronavirus risk. Air Canada needs a vaccine for COVID-19 badly.

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