Why Did Air Canada (TSX:AC) Stock Rise 35% Last Week?

Description

Shares of **Air Canada** (TSX:AC)(TSX:AC.B) rose 35% in the last week to end trading at $16.75 on March 27, 2020. The stock has been — as expected — volatile in the last month and a half. The COVID-19 pandemic has led to countrywide lockdowns, governments shutting their borders, bringing the global travel and tourism industry to a standstill.

Air Canada stock fell from a record high of $52.71 to a 52-week low of $9.26 in just over a month, losing over 80% in market value. However, as broader markets made a comeback in the last week, shares of Air Canada also gained momentum in the week ended on March 27.

Air Canada stock will continue to remain volatile

While it appears that the markets recovered in the last week, it may very well be a temporary uptick. The economic impact of the COVID-19 is bound to take a huge toll on the global equity markets as consumer spending is likely to decline drastically. People are largely staying home and spending on essential goods and services such as groceries and medicines.

This also indicates that Air Canada stock might move lower in the upcoming months. The stock fell 6.5% on Friday compared to a 5.3% decline in the **iShares S&P/TSX 60 Index ETF.**

Earlier this month, Air Canada withdrew its guidance for 2020 and 2021, as it continues to be impacted by a severe drop in traffic. The COVID-19 pandemic has led to travel restrictions imposed by several countries, including Canada and the United States.

Air Canada will focus on cost reduction

Air Canada has forecast a 50% capacity reduction in the second quarter compared to the prior-year period. The capacity reduction in Pacific markets for April 2020 will be around 75%, and the company is expected to adjust its capacity as required.

The company confirmed that significantly lower fuel jet prices coupled with cost savings associated with the capacity reductions as well as other cost reduction programs will help offset a 50% to 60% fall in the second-quarter revenue. Air Canada's fuel and depreciation expenses account for 50% of its operating expenses.

In order to preserve cash, it has announced a company-wide cost reduction and capital deferral program targeting $500 million in savings. Air Canada has a cash balance of $7.1 billion as of March 13, 2020, including the proceeds from the drawdown of a U.S.-based credit facility. The company also has a revolving credit facility of $200 million.

What next for investors?

Air Canada will experience a steep decline in revenue and earnings for 2020. However, the COVID-19 impact will be a near-term headwind and the stock should bounce back in the second half of 2020.

The company remains optimistic about its strong balance sheet, robust liquidity metrics, low leverage ratio, and a surplus pension plan. Management stated, "COVID-19 presents the global airline industry with unprecedented challenges, compounded by uncertainty as to the extent of its effects.

However, we are confident that after a decade of transformation and record results, Air Canada today has the agility, the team and the route network to successfully navigate through this crisis."

Air Canada has played its part in evacuating Canadians from all around the world. It's extremely likely that the company will receive a bailout package from the Canadian government should it come to that.

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