



## Why Air Canada Stock Price Lagged the TSX by 207% in March

### Description

The Air Canada stock price was trading at all-time highs earlier this year. The company was coming off years of strong revenue growth, earnings growth, and increasing efficiencies. This all demonstrated that the company was at the top of its game.

But here we are today. What a difference a few months make. Today, the airline industry remains one of the hardest hit by the coronavirus pandemic. Air Canada stock has plummeted 72% from recent highs. In the month of March, Air Canada stock price lagged the TSX by 207%.

### Air Canada stock price underperforms as travel bans take hold

In March, an increasing number of countries implemented travel bans and lockdowns. This has crippled the airline industry, causing Air Canada stock price to lag the TSX significantly. It may very well be that one day, Air Canada stock will be a screaming buy. But today, the company is dealing with plummeting demand.

Global air traffic fell 14% in February, and one can only imagine the hit to demand that March has seen. We can at least look to China for an idea of what to expect. In February, domestic air travel declined 84% in China.

In response to this crisis, March has seen Air Canada cut its capacity by 85% to 90%. 16,500 employees were laid off. Certain executives and board members' salaries have been forgone. The company suspended its share repurchase program. It is arguably the worse crisis for airlines ever.

### Air Canada stock price falls as the company faces financial ruin

These days, when we think about Air Canada, we should remember to think about cash burn. Because it is a matter of survival. While we can find hope that the government will not let major airlines like Air Canada fail, we know that the future is precarious.

We have seen the company do its part in responding to the coronavirus crisis. But it is clear that more is needed. The government of Canada has said that help is on the way for [industries that are suffering catastrophic losses](#). This includes the airline industry. Some analysts estimate that Air Canada's cash burn could be as high as \$1.5 billion in 2020. The reality could be even higher.

As at the end of 2019, Air Canada had approximately \$5.9 billion in cash and cash equivalents. Add the company's long-term investments, and we get a total of almost \$7 billion. This is worth a lot, but still, a potential recovery is very uncertain in terms of timing and magnitude. The risk, therefore, remains high.

## Foolish bottom line

The bottom line is relatively simple. Air Canada is Canada's leading airliner, and the company is pulling on all levers so that it remains so. The government has said that more aid is coming to the airliners. But the timing and extent of any recovery remains highly uncertain. Even after restrictions are lifted, we can expect things to remain difficult. There may be lingering fears regarding travel and [the financial aftermath of the crisis will be difficult for most](#). These both imply that the airline industry may not bounce back as quickly as we would hope.

This catastrophic year will eventually be in the rear view mirror. Air Canada stock currently trades at a price-to-book multiple of approximately 0.8 times. There is value here at \$14.55, but expect the stock to remain highly volatile.

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