



## Air Canada (TSX:AC) Suspends More Flights: Should You Sell the Stock?

### Description

We're over halfway through April, and the **Air Canada** ([TSX:AC](#)) soap opera just keeps getting wilder. After laying off and re-hiring 16,500 employees, the company recently announced that it was cutting even more routes.

In recent statements, Air Canada said that it was extending previous international cancellations until May 31 and cancelling several regional flights for the first time. For dip buyers, this hasn't caused any big problems yet, as AC was still rising on Monday. The question is, is it time to sell the stock now and lock in gains or hold on for an even bigger jump?

### Likely earnings impact

Most investors already know that Air Canada's Q1 earnings are going to be terrible. Faced with the loss of 90% of its routes, the company's sales are going to plummet, while certain expenses (e.g., interest) will remain. We'll have to wait until May to know for sure, but it looks like AC's earnings will not only decline but actually be negative.

Granted, there are some rays of hope. Air Canada has been trying to make up for lost passenger flights with [more cargo flights](#). That could genuinely make a difference, but it likely won't make up for the lost passenger flights. After all, the company laid off 16,500 employees, and didn't re-hire them until it got government stimulus money. Such a dramatic payroll cut suggests that flight volume is overall way down, even with cargo flights picking up some of the slack.

The earnings implication of Air Canada's latest cancellations is clear: the revenue lost in Q1 will not be re-gained in the early months of Q2. Therefore, if investors were pricing the stock for a speedy recovery, they were mistaken.

### Long-term financial impact

The really big question is the *long term* financial impact of all these flight cancellations. As I wrote in

past articles, Air Canada has a mountain of debt with [huge interest expenses](#). These types of costs don't go away when you shut down your operations. If Air Canada has really lost 90% of its routes, then it's going to have a hard time servicing interest.

That will be even more true if the class-action lawsuit demanding ticket refunds goes ahead. Back in March, Air Canada abruptly announced that it would give vouchers instead of refunds to travellers whose flights got cancelled. Some lawyers disagreed, and pursued a class action.

The cash outflow from such a lawsuit, if it succeeded, would be massive. If Air Canada's flights were still cancelled when the bill came due, then it could financially devastate the company.

## Sell the stock?

Finally, we arrive at the question of the hour:

*Should you sell Air Canada stock?*

If you initiated a new position in AC on the dip and are now up, the answer is probably yes. There's just nothing to indicate that AC should get back to its past highs, and there are even some signs that the recent rally made it overbought.

If you're a long-term holder, the situation is more complicated. If you were one of the lucky ones who first bought AC when it was under a dollar, you could probably hold on for even bigger gains. If you bought in the \$50s, however, it might be time to cut your losses.

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