Air Canada (TSX:AC) Stock Could Be Doomed in 2020

Description

Canada's flag carrier, **Air Canada** (TSX:AC), is back in familiar territory. Bankruptcy and huge losses are again knocking as happened in 2003 and 2008. The federal government would have to make tough decisions now that the survival of one of the country's largest companies hangs in the balance.

The airline industry was dealt a significant blow by the coronavirus outbreak. COVID-19's rapid spread caused an unprecedented shutdown of the aviation business. Air Canada is facing a doomsday scenario. Three things need to happen once the pandemic ends for Air Canada to recover.

The great comeback

Air Canada's CFO Mike Rousseau recalls the events of 2008 when the company's losses hit $1 billion. The share price tanked to less than a dollar. However, Air Canada was able to make a huge rebound in the succeeding decade to post earnings of $167 million in 2018. Its stock climbed by 5,412.8% during this time frame.

The comeback of Air Canada in the past decade was one for the books. But duplicating the feat this time could be next to impossible. Its way out of the pits is a daunting task especially if travel restrictions extend for months.

In early March 2020, Air Canada's market capitalization stood at $9.35 billion. As of this writing, it has shrunk by 49.3% to only $4.74 billion. The stock is trading at $17.96, or a year-to-date loss of 63%.

About 50% of the total workforce was cut after the implementation of a cost reduction program. But with the new Canada Emergency Wage Subsidy (CEWS), Air Canada could rehire the 16,500 laid-off employees and keep them in the payroll.

Credit bridge, if not a bailout

The airline industry outlook is gloomy, although it could still recover in the long run. Air Canada would need enormous financial support to stand on its feet again.

Canada’s Finance Minister Bill Morneau is already talking about a credit bridge for large Canadian firms that have suffered or are suffering heavily in the pandemic. The federal government is providing a $2.45 billion aid for the energy sector.

Bring back volume

After the rescue package, volume needs to return first. Borders should be open by then to accommodate both leisure and business travel. However, expect consumer anxiety about traveling in post-corona to remain very high.

Confidence in international travel will lag versus domestic travel in the aftermath of COVID-19. Business travel, although impaired, will be more than leisure travel. The demand for the latter will perennially be at low levels. Point-to-point flying will also be the new normal instead of the hub models.

Attractive pricing

The industry is in a similar situation following the 9/11 terrorist attack. When travel risks diminish, attractive pricing could eventually stimulate leisure as well as business travel. Airline companies would have to create new business models to drive growth.

Solve the liquidity problem

The factors for recovery apply to the general airline industry. But according to its CFO Rousseau, Air Canada is better prepared to meet the present challenge.

Aside from debt-free airplanes, labour contracts allow for greater flexibility. However, solving its liquidity problem is the priority to prevent bankruptcy.

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