Air Canada (TSX:AC): Buy Now or Wait?

Description

The **Air Canada** (TSX:AC) drama continues, as we approach the beginning of another month of the COVID-19 pandemic lockdown. The troublesome airline sector stock has been causing plenty of commotion for investors who are eyeing the stock closely through the global health crisis. It could even be an industry you might want to consider staying away from.

After laying off more than 16,000 employees and re-hiring them, the company announced it is cutting more routes. The airline announced that it is extending international flying route cancellations until the end of May 2020, along with several regional flight routes. Many investors who bought shares of the stock on the dip are happy since it is still on the rise.

The question is, is it the right time to buy more shares of the stock for a jump in capital gains or to sell the stock and lock in the profits you already have?

Impact on earnings

There is still some time for Air Canada to release its earnings report for the first quarter of fiscal 2020. Most investors already know the reports are going to be terrible. With more than 90% of its routes shut down, sales have plummeted for the most significant airline in Canada. Expenses like interest on loans will remain for the company to deal with.

While I cannot claim it for a fact until the earnings report comes out in May, it will likely be in the negative. Air Canada has been making attempts to cover for the loss of passenger flights by increasing cargo flights, which could make a difference for the seemingly struggling airline. Still, it cannot compensate for the loss of its passenger flights.

The company laid off 16,500 employees. It only re-hired those employees when it received money from the government's stimulus package. This reluctance to reinstate its employees is a sign that the company is struggling with its cash flow. For investors buying shares in the hopes of a rapid recovery, the situation seems dire.

Long-term impact

With the cancellation of so many flights, there is a long-term impact on Air Canada's financial situation that remains to be seen. Air Canada has a mountain of debt with high-interest expenses. These costs do not go away when a company has to shut down its revenue-generation capabilities.

If the class-action lawsuit for the demand of ticket refunds goes ahead, the situation can become far worse for the airline. In March, Air Canada announced that it would provide its customers with vouchers instead of offering them refunds. Some of the lawyers representing those travellers disagreed and pursued a class-action lawsuit.

If the lawsuit succeeds, the amount of cash lost by Air Canada could deal a crippling blow to the company. If flights do not resume by the time it has to pay off the travellers whose flights were cancelled, Air Canada might be devastated by the bill.

Foolish takeaway

And now for the critical question: Should you buy the stock now or wait?

I would suggest waiting. If you bought shares of the stock on the dip and have witnessed the capital gains in the past few weeks, it could be the right time to sell your shares and save your capital. The prospect of Air Canada getting back to its all-time highs does not look bright.

While the company might recover in the long run, it might not be wise to buy shares of the stock right now.

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adamothman