Air Canada (TSX:AC) Says Global Travel Will Resume by Christmas: Should You Buy the Stock?

Description

Recently, a *CBC* article reported on Air Canada's plans to resume global travel. In the article, company VP Tim Strauss was quoted as saying "we'll be flying to most places around the world and certainly domestically [by winter]."

In light of Air Canada's most recent quarterly report, this statement looks optimistic. In the report, AC said it expected capacity to remain 75% lower in Q3 than it would in a normal season. There was no forecast given for Q4, but the planned re-opening of travel in Q3 was not particularly aggressive.

As of Q2, AC's flight volume was 85-90% lower than normal. If AC is going to be 75% below normal in Q3, it's not opening on a rapid timeline. Unless the Q4 re-opening is far more aggressive, then AC won't be anywhere near full capacity by winter.

Further, there's still the question of passengers voluntarily opting out of travel after it resumes. Even if Air Canada tries to re-open international travel by Christmas, it's possible that risk-averse travellers won't bite. That's another way the company's plans could be thwarted.

Nevertheless, it looks like Air Canada's flight volume will be up at least somewhat by Q4. Is this enough to make the stock a buy at current prices? To answer that question, there are three factors you need to consider.

Possible effect on revenue

If Air Canada is operating international routes by December, then it will earn more revenue than it earned in March or April. With that said, revenue may actually be lower than it was in Q1.

The first quarter only saw one month of truly extensive lockdowns. From just that one month, Q1 revenue declined to $3.7 billion from $4.4 billion. So, the Q2 revenue decline will be bigger, reflecting three full months of reduced capacity.

So, Air Canada's Q4 revenue will probably be higher than Q2 but lower than Q1. As for the question of earnings, there are a number of wild cards on that front, one of which I'll explore in the next section.

Legal issues

In Q1, Air Canada pursued a number of unconventional measures to protect its cash position. One of those was offering vouchers instead of refunds for flights cancelled due to COVID-19. This policy was brought on in March. Prior to this, the company had been giving full refunds. The move to go with credit got the approval of the Canadian Transportation Agency (CTA). But not everybody agreed that it was legal.

Currently, lawyer Simon Lin of EvoLink Law Group is pursuing a class-action suit against Air Canada over its voucher policy. The lawsuit seeks full cash refunds *plus* damages. All passengers affected by the cancellations and refund policy are automatically considered class members. If successful, this lawsuit could result in Air Canada having to pay for thousands of refunds. Class members don't even need to sign up to become part of this lawsuit, so the number of payouts it triggers could be staggering.

Buffett's airline exit: What does it mean?

A final factor we need to consider when looking at Air Canada's plans to take off in Q4 is Warren Buffett's recent exit from airline stocks. In Q1, he sold his *entire* stake in the airline industry, citing the potential for long-term revenue declines. In his annual shareholders meeting, he hinted that passenger miles could still be down "two or three years" from now.

That's not a positive forecast for the U.S. airline industry. And all the factors impacting U.S. airlines are also impacting Air Canada. In light of this, the company's rosy Q4 forecast may be unrealistic.

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