Why Air Canada (TSX:AC) Stock Is a Bad Investment Right Now

Description

Air Canada (TSX:AC) stock still looks to be holding strong compared to the dire risks it is facing these days. It might fall below previous lows before starting a recovery.

AC management expects air traffic to take three years to reach its pre-coronavirus levels. It's gloomy outlook during the quarterly earnings only fuelled the negative sentiment and shows how hostile things really are in the global aviation space. The delayed recovery largely indicates lower revenues, lower earnings and further tumbling stock prices.

Uncertainties dominate

Many airline companies have collapsed due to the massive demand decline in air travel this year. Air Canada looks relatively well placed at the moment mainly due to its strong balance sheet. However, with almost no cash coming from operations, how long it survives remains to be seen.

Air Canada is the biggest airline in the country and market pundits anticipate a government aid. Interestingly, that would become a reality if the airline remains non-operational for longer than expected. However, a government bailout in the form of equity or preferred stock could notably dilute existing shareholders' interest.

More worrisome still, with new COVID-19 cases increasing after releasing lockdowns, it further multiplies troubles for airline companies like Air Canada. It might force authorities to extend lockdowns and further delay airline operations.

A very short period of being out of operation during the first quarter put a big dent on Air Canada's bottom line. It has already announced that it will be operative only 10%-15% of the capacity during the second quarter. Imagine what will be the numbers when it is operative with such a little capacity.

To add to the woes, even if it starts full-fledged operations later in the second half, it will take time for people to come out and fly like pre-corona levels.

Global air traffic took approximately 4-6 quarters to bounce back after the 2008 financial crisis. However, given the magnitude of the pandemic, the ongoing disaster could take even longer.

After the pandemic, Air Canada can increase its focus on cargos amid the dwindling number of flyers. However, that will also have a marginal impact on its top line. Jet fuel prices, a major cost component for airlines, have been notably cheaper these days and be of significant help amid these challenging times.

Air Canada stock after the COVID-19

Air Canada stock was one of the top gainers in the last decade. From 2013 to early 2020, it returned more than 2,500%. However, such a performance seems like a distant dream right now.

In fact, its recent quarterly earnings have created a fresh weakness in its stock and it has fallen around 18% since its release. From its all-time high of $52.7 in February, Air Canada stock has lost around 70%.

Investors should note that despite such a steep fall, the stock does not look attractive from the valuation perspective. However, with so much uncertainty regarding resuming operations and being profitable, Air Canada stock remains a risky, speculative bet.

The stock could remain substantially weak in the short term. Moreover, its second-quarter earnings and traffic post-lockdowns will determine the stock's bottom.

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