Air Canada (TSX:AC): 3 Years’ Growth Wiped Clean

Description

Air Canada (TSX:AC) is experiencing the same dilemma as the whole airline industry. Even with lockdown easing up, people are still wary of air travel — and the situation is unlikely to change in the second quarter. The company is running at merely a fraction of its total operational capacity and has undertaken several cost-cutting initiatives, but will they be enough?

At the time of writing, Air Canada is trading at $15.22 per share. That’s in the same mid-20 territory the stock was in during May 2017. It took Air Canada over two years to grow its stock price by well over 200%.

This explosive rise made it one of the best growth stocks trading on **TSX** in the past five years. Unfortunately, it took barely five months to wipe all that progress clean.

Current situation

To say that the current situation is bad would be a drastic understatement. Several regional services are still suspended and are likely to remain so until June. The company has started operating under strict SOPs to ensure that they don’t become another cog in the pandemic machine.

Air Canada is checking passengers’ temperatures, not letting sick people on board. As well, the company announced that it won’t book adjacent seats and will cap the number of total passengers per flight. It’s hard to pin down the exact number for how many passengers a flight is actually profitable for the company.

But flying with about half capacity (low load factor), even if the company isn’t losing money, it might not be making nearly as much as it needs to stay ahead of its debts.

Adding to its worries, a New York resident is trying to launch a class-action lawsuit because the company refused to refund him his money and offered him vouchers instead. While in itself this isn't a big deal if the company deals with it promptly. But it's bad press, and if it inspires more lawsuits, the company will start to bleed on the legal front as well.

Future prospects

Not to sound like a persistent pessimist, but Air Canada's prospects don't seem very bright. It has nothing to do with the airline itself, which has taken measures to stay afloat in these troubled times.

If worst comes to worst, the airline can borrow from the Large Employer Emergency Financing Facility. The government is unlikely to stand by and watch as the country's premier airline goes under, so it might bail Air Canada out.

But none of these measures can replicate or make up for the general fear of flying in public. And it's only bound to increase if another pandemic wave is confirmed or if an asymptomatic patient transmits the virus to others in one of the company's flights. Any of these external factors could well push the company down again.

Foolish takeaway

It's hard to see that such a prized growth engines in many investment portfolios is suffering so much. Those who are still optimistic about its recovery and long-term growth might bet on the company's abnormally low valuation.

But those who are afraid of the whole industry in general — a fear that only grew stronger after Warren Buffet's move — might stay clear of Air Canada.

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