



## Air Canada (TSX:AC) Turbulence: Should You Own the Stock Today?

### Description

**Air Canada** ([TSX:AC](#)) was one of the top-performing Canadian stocks in recent years.

The meltdown in the share price in the past two months now has investors who missed out wondering if the stock should be on their [buy list](#).

### Wild ride

Air Canada traded for less than \$1 per share in 2012. The stock took a beating through the financial crisis and remained under pressure, as oil prices rallied in the wake of the Great Recession.

Then things began to improve.

A rebound in the global economy pushed up travel demand. At the same time, the airline industry shifted its business model and started charging passengers for perks such as extra bags, seat preferences, and meals. These add-ons bumped up margins, while the crash in oil prices after 2014 helped lower jet fuel costs.

The resulting jump in profits led to big investments in U.S. airlines by famous investors, including Warren Buffett. Low oil prices appeared to be the norm going forward and growing middle-class wealth around the globe painted a rosy picture for travel demand.

The airline sector suddenly found itself in favour, and Air Canada became TSX darling. In fact, the stock topped \$52 per share in January of this year.

### Pandemic outlook

The pandemic is a worst-case scenario for Air Canada and the global travel segment as a whole. Government lockdowns have forced the entire airline sector to halt most flights. Even as restrictions ease, the economic fallout is going to hit travel demand for months or years.

Air Canada just announced plans to lay off roughly 20,000 of its 38,000 employees. The company said it is only flying about 5% of capacity compared to last year and is targeting a slow increase toward 25% by the end of 2020, assuming governments remove some of the current restrictions.

In the latest statement, Air Canada said it is burning through more than \$20 million in cash per day. Despite the re-opening of global economies, the company expects the recovery in global air travel to be slow, and Air Canada is making adjustments to be a much smaller business for the next three years.

Leaders of other major airlines have given similar guidance on how long they think it will be before they see capacity back to 2019 levels.

At this point, the duration of the pandemic is unknown, and much will depend of the development of vaccines.

## Government help

The Canadian government has announced plans to provide large companies with bridge loans to help them get through the crisis. Some pundits speculate a bailout of the airline industry, however, might be required.

Ottawa is reluctant to officially go down that road, as there are a number of other struggling industries that would expect the same treatment. The [energy sector](#), for example, is also in trouble.

## Should you buy Air Canada stock?

Air Canada's share price hit a closing low near \$12 in March and topped \$21 in late April before sliding back to \$14 last week. The positive news on a potential vaccine in the United States is now providing a relief rally to airline stocks. At the time of writing, Air Canada trades at \$16 per share.

Investors should be careful chasing the stock at this level. The company is bleeding cash and doesn't expect the situation to improve materially for quite some time. The current share price reflects anticipation of much better conditions, and that appears to be overly optimistic in the current environment.

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## Date

2025/08/24

## Date Created

2020/05/20

## Author

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