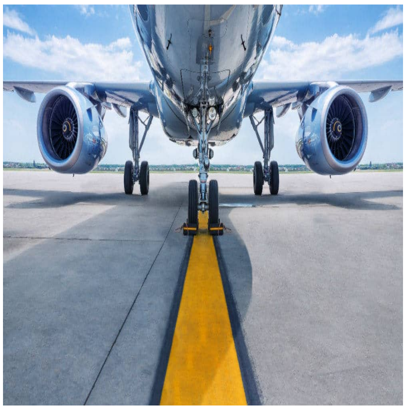

Air Canada (TSX:AC): Will the Stock Soar Again?

Description

The share price of **Air Canada** (TSX:AC) went from $1 in 2012 to $50 in 2020 before the pandemic hit.

A near total lockdown of the airline industry over the past few months hammered the stock and contrarian investors are wondering if this is the right time to buy.

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Outlook for air travel

The world changed in the past 90 days.

A return to previous air travel demand will take at least three years according to a number of airline CEOs. Analysts with more pessimistic views suggest the industry might never recover to 2019 levels. The head of **Boeing**, a global plane manufacturer, recently said a major U.S. carrier could go out of business.

Until a vaccine is developed and widely available, people might be less inclined to get on a plane, especially for long trips. Government restrictions could keep borders closed for much longer than expected.

Business travel is a lucrative segment for the airlines. Global business travel soared in recent years and economy passengers who used to get a bump into business in the old days saw those perks disappear. Going forward, business people might prefer to simply stay home and conduct meetings online.

The lockdown has forced businesses of all types to embrace video meetings. In the past, low-quality internet connections and frustrating video tools put most people off the concept. Technology has improved significantly and a number of online meeting platforms have proven their usefulness during the pandemic.

Businesses will likely continue to use the digital solutions going forward and save themselves the money they would normally have spent on expensive air travel and hotels.

Flight experience

The travel experience is expected to change dramatically, as well. Getting through security and customs is never fun and often takes a long time. The process won't get better.

Everyone who handles luggage will have to sanitize their hands after each item is touched. Social distancing requirements will limit the number of people who can line up to go through the check-in process. Restaurants and bars will follow new restrictions.

The comfort perks on the plane could also change. Blankets, pillows, magazines, and snacks, might disappear.

Airline staff might be required to disinfect every seat after each flight. At a minimum, the seat belt and tray table, for example, could require cleaning, driving up costs and extends travel delays.

Overall, flying could get a lot more expensive. In Canada, air travel was already pricey. Despite the lack of current demand, deals are not being offered.

At the time of writing, a return flight from Toronto to Calgary in the next 30 days ranges from $750 to $1,300.

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Is Air Canada a cheap stock?

Air Canada trades at $17 per share at writing. This might look like a great deal for a world-class airline that transformed its business model in recent years to become very profitable. In normal circumstances, that would be the case.

However, investors should be careful.

The company recently announced plans to lay off roughly 20,000 of the 38,000 employees in the coming weeks. Air Canada is flying just 5% of previous capacity and only expects to be back to 25% by the end of the year. The company lost more than $1 billion in Q1 2020 and says it is burning through $22 million in cash per day.

As with other airlines, Air Canada doesn't think a return to former traffic levels will occur in at least the next three years.

As a result, the business will be much smaller in the coming months.

Hope for a full-blown government bailout might be too optimistic. Ottawa plans to offer large companies bridge loans to help them get through the crisis, but a blank cheque is unlikely.

Air Canada will survive. However, investors might want to search for other opportunities right now. Risks remain very high for the travel industry in the next 12-18 months.

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