



Air Canada (TSX:AC): When Will the Stock Be a Buy Again?

Description

Air Canada ([TSX:AC](#)) saw its share price drop from \$50 in February to below \$10 at the height of the selloff in March.

A recovery across the broader market helped lift the stock off the lows over the past two months, but investors are wondering if Air Canada deserves to be on their [buy lists](#) at the current price near \$17 per share.

Dark skies ahead

Air Canada recently announced plans to cut roughly 20,000 jobs. This represents more than half the total workforce. The size of the move indicates how dire the situation has become for the airline industry. Blocked borders, lockdowns, and travel bans have effectively shut down the global travel market.

The company said it is burning through \$22 million in cash per day. That has to stop.

Air Canada has grounded more than 200 planes, and the latest update indicates the company is flying 5% of capacity compared to last year. As countries begin the process of re-opening their economies, sales should start to improve, but Air Canada says it only expects to be back to 25% of capacity by the end of the year. In addition, the CEO doesn't see a return to 2019 volumes for at least three years.

This position is consistent with the outlook provided by the large U.S. carriers.

A number of factors will determine the speed and extent of the recovery in domestic and global air travel. The challenge for investors is to figure out which scenarios are most likely to occur.

Business travel

Budget travellers hate walking past the the prestigious seats in the front of the plane. These are the

expensive ones that come with tasty meals, drinks, and more space. Some wealthy people fly first class for personal trips, but the majority of these seats are occupied by business travellers who want to ensure they are fresh and prepared for their meetings on arrival.

The lockdown over the past two months forced companies to embrace digital-meeting platforms. The success and effectiveness of online meetings could spell trouble for business class travel, even after the pandemic has passed and a vaccine is widely available.

In-person meetings will still be important, especially for sensitive discussions with potential new clients or business partners. However, internal meetings with remote teams and presentations to existing clients might be just as effective conducted over a virtual platform.

At the very least, the rebound in business travel will likely be slow. Analysts even wonder if it will ever regain previous levels.

Economy class

Demand in economy class could also face headwinds. The new normal for air travel likely means longer wait times to get through security and customs. Economy-class freebies were already on the decline, and travellers will probably see fewer perks. For example, snacks, magazines, and pillows could disappear.

People who need to make long trips will put up with the added inconvenience and anticipated higher costs. Those who have alternative options for their holidays might just give up on air travel.

Oil price

Low oil prices drove much of the big windfall for airlines in recent years. Fuel remains the highest cost for air carriers, so cheap jet fuel leads to much better margins. Oil prices remain under pressure after the meltdown in the past two months, but there is a risk that we could see a surge to previous highs in the next couple of years.

Oil [producers](#) around the world have cut production, slashed exploration, and shut down high-cost sites. Rig counts are at lows not seen since 2009. As global economies begin to re-open and oil demand recovers, the current situation of oversupply could reverse. Any surge in WTI oil back toward the 2014 highs would put added pressure on the airline industry.

The bottom line

Air Canada won't disappear, but it will be a much smaller company for the next few years. The headwinds shouldn't be overlooked.

Given the various unknowns going forward, the current share price might suggest an overly optimistic view by investors. Warren Buffett recently dumped all his airline holdings. If he doesn't see opportunity right now, it might be best to stay on the sidelines.

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