



Is Now the Best or Worst Time to Buy Air Canada (TSX:AC) Stock?

Description

A spate of bankruptcies is sweeping the global airline industry. Nine airline companies, in seven countries, are bankrupt. Two of them are their respective country's flag carriers. **Air Canada** ([TSX:AC](#)) is teetering on the [brink of insolvency](#), and the federal government has yet to extend direct assistance.

Canada's flag carrier and one of the world's largest airline companies is burning \$22 million daily. The bleeding is so severe that management will be implementing a massive job cut. About 19,000 to 22,800 employees could be out of work starting June 7, 2020.

The hard truth

No one can contest the decision of Air Canada. While the Canadian Union of Public Employees (CUPE) did not like the news, they are accepting the hard truth. Because operations are down by almost 95%, Air Canada has an enormous surplus of airline personnel.

The latest buzz is that flight attendants would have to slash schedules, agree to go on leave for up two, or resign with travel privileges to prevent further layoffs. Also, CUPE is discussing the Canada Emergency Wage Subsidy (CEWS) with Air Canada.

Based on Canadian labour law, a company implementing a large-scale layoff must file a written notice to the Minister of Labour. Similarly, the employment terminations must take effect 16 days after the date of notification.

While the decision to let go of 50% to 60% of the total workforce of more than 38,000 is difficult, Air Canada has to make the call if it wants to emerge from the crisis with at least one leg to stand on. The longer the federal government takes to decide, the closer Air Canada will be to declaring bankruptcy.

Hazy outlook

The future of the aviation industry is very hazy. Operational costs are increasing while air travel is on a

standstill. Air Canada is not paying workers' wages, although it continues to pay pensions and benefit funds. The expenses are draining the company's coffers.

Air Canada's CEO Calin Rovinescu sees traffic to pick up somewhat before 2020 is over. The capacity should be around 25%. He adds that recovery will be slow and that investors should expect [sub-par earnings](#) for at least three years. It's still uncertain whether revenue and capacity in 2023 will be at par with the 2019 levels.

Don't buy into the problems

Air Canada was one of the top stock performers in 2019. The full-year gain was an incredible 86.86%. As of this writing, the year-to-date loss is almost 65%. For this year, the company is looking at a revenue drop of up to 60%, while The EBITDA loss could be \$800 million.

I'm not sure if the "buy low and sell high" mantra will apply to Air Canada. The status of the most dominant airline company in Canada is no longer investment-grade. **S&P Global Ratings** has downgraded its rating for Air Canada to BB-minus. The prominent rating agency is keeping a negative outlook.

Buying this airline stock, even at a rock-bottom price, can get you in trouble. There is no clear runway for growth. You'll be investing in Air Canada's problems if you take a position today.

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