



Should You Buy Air Canada (TSX:AC)?

Description

Few segments of the market that have been as hard-hit in the COVID-19 pandemic as airlines. In fact, prior to the pandemic, airlines were on track for their best decade ever. A shining example of this is **Air Canada** ([TSX:AC](#)). Canada's flag carrier. But should investors buy Air Canada right now?

How high is Air Canada flying right now?

Air Canada's stock has dropped a staggering 66% so far in 2020 — far more than the overall market has dropped. Even worse is that during the slow claw back of the market in recent days, Air Canada has struggled to make any noticeable gains.

There's a good reason for that too. Up until the pandemic hit, Air Canada was clearly in a growth-mode. The company was in the midst of updating its fleet with Dreamliners and A220s, and adding new permanent and seasonal routes for the summer high-season.

Instead, Air Canada is flying in a limited capacity, across just a few of its usual routes. From a results standpoint, losses came in at over \$1 billion in the most recent quarter. Keep in mind that those aircraft that aren't currently flying are still subject to fixed costs and maintenance. That's hardly a case to make for buying Air Canada right now.

What is Air Canada doing?

To combat the loss of revenue, Air Canada has made deep and painful cuts both to service and staff. On the staffing side, the airline slashed over half of its workforce this year. In terms of expenditures, many of the efforts targeting growth were also deferred.

Air Canada also announced this week a financing deal that will inject a much-needed \$1.4 billion into its war chest. This is in addition to the \$6.5 billion the company still has available in unrestricted liquidity. At the onset of the pandemic in March, Air Canada had drawn \$1 billion from its revolving credit.

Final thoughts — should you buy low?

From a results standpoint, Air Canada is not expecting the airline to see revenue levels near where it was last year for another *three years*. And while businesses are beginning to re-open slowly, they are doing so by adopting social-distancing measures that are nearly impossible to replicate on a tightly-packed (i.e., profitable) aircraft. That's also assuming that [another crash](#) isn't coming, which many pundits fear could be coming soon.

Adding to that complexity is the fact that an airline — especially one that is reliant on international travel — will need international markets to open up as well. That could be part of the three-year point made above. For investors, that recovery timeline could be best spent [looking elsewhere](#).

In other words, prospective investors looking to buy Air Canada at a discounted rate with a half-full lens may best be served by looking elsewhere.

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Date

2025/07/08

Date Created

2020/05/28

Author

dafxentiou

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