Air Canada (TSX:AC) Stock: 3 Reasons to Not Buy it

Description

Air Canada (TSX:AC) is lucky its share price hasn't fallen to $0 yet. The commercial aviation industry is a total mess in 2020; many airline companies are on the verge of collapse. Canada's flag carrier is still alive, although it's hanging by a thread. The company is attempting to restart the business but needs to contain financial losses.

Ironically, Air Canada's CEO Calin Rovinescu gave an excellent reason to stay away from this airline stock. He assesses is that it will take at least three years to return to the 2019 levels of revenue and capacity. But I will expound and give you three more reasons why the stock isn't worth the gamble.

Pleading for cash

Air Canada is bleeding and asking for money. It reduced capacity by 90%, which led to a $1 billion loss in the second quarter of 2020. The company needs some direct federal support to navigate the darkest period of its existence.

Prime Minister Justin Trudeau remains non-committal about a bailout. The only offer so far is a bridge financing facility for larger Canadian firms affected by the pandemic. Meanwhile, Air Canada needs funds badly, or else takeoff is impossible.

The company will issue 30.8 million shares worth $500.5 million and issue US$650 million in convertible senior unsecured notes due in 2025. It is targeting to raise $1.4 billion to have greater financial flexibility.

Will there be takers?

Monetary refunds will spell doom

Customers want their money back. But if you were to compel Air Canada to pay full refunds, it will cause financial strain. The best management could offer now is a “goodwill policy.”

One option is a fully transferable Air Canada travel voucher for the remaining value of a ticket that will have no expiry date. The other is the conversion of the remaining value of tickets to Air Canada’s loyalty program (Aeroplan Miles) and a 65% bonus point value. Can Air Canada appease angry customers with its new refund policy?

Changing passenger behaviour

Aside from passenger revenue disappearing, the International Air Travel Association (IATA) is warning of changing booking behaviour. According to IATA, the booking pattern shift will add to the uncertainty and hamper the restart process.

The association adds that social distancing would make Air Canada and other airline companies financially nonviable. Airfares will have to increase to cover the cost of flights due to fewer passengers. Airline companies will only break even and not make profits at all. Why would you raise air fares when travel demand is at its lowest? It doesn’t make sense.

Zero growth this time

I picked Air Canada last year to be one of the top growth stocks in 2019. The airline stock did not disappoint, as the reward to investors was an 86.86% return on investment. The COVID-19 pandemic wiped out all gains with one swift blow. As of this writing, the share price is down to $15.90, representing a year-to-date loss of 67.22%.

Gone are the 27 consecutive quarters of growth. You might witness straight quarters of skid instead. Air Canada has no visible runway that would see it take flight like before.

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