Air Canada (TSX:AC) Stock: Buy, Sell, or Hold Today?

Description

Air Canada (TSX:AC) continues to be a volatile stock, as contrarian investors try to figure out when air travel will start to ramp up in a meaningful way.

Travel industry

Countries around the world are starting to lift restrictions on travel. The European Union just announced plans to open travel to the member countries beginning July 1.

Tourism represents a significant part of economic activity in Europe. Countries are afraid to miss out on a full summer of opportunities as thousands of restaurants, hotels, and businesses that serve the industry risk going bankrupt.

In the middle of May, Air Canada said it was flying about 5% of 2019 capacity and projected a ramp up to 25% by the end of the year, assuming governments remove restrictions. An early opening of international markets would certainly help.

The company previously indicated it would cut 50-60% of its workforce effective June 7. That's about 20,000 jobs. Air Canada initially adopted the government's CEWS plan to put most of its furloughed workforce back on the payroll for the March 15 to June 6 period.

The pandemic lockdowns forced Air Canada to ground more than 200 planes. The May update indicated the company was burning through $22 million per day.

At the end of Q1, Air Canada had unrestricted liquidity of $6.5 billion. The company subsequently secured a US$600 million term loan for net proceeds of $829 million. In late April, Air Canada shored up a bridge financing deal valued at $788 million for 18 Airbus 220 aircraft. Last week, Air Canada completed a stock and debt offering that raised $1.59 billion.

The company sold 35.4 million shares at $16.25 for gross proceeds of $575.6 million. The airline also issued $1.02 billion in convertible senior unsecured notes due in 2025. The offering was popular with investors, as the company far exceeded the initial target of $540 million.

Air Canada reported a Q1 2020 net loss of $1 billion. The Q2 numbers will also be ugly.

Outlook

Air Canada has adequate liquidity to get through the coming months as long as borders open and people start flying.

Airlines say it could be three years before the industry returns to 2019 capacity levels. A number of factors will determine if Air Canada and its peers can beat that timeline.

Risks?

A second wave of the pandemic is possible, and that would potentially force countries to close borders to international visitors. Business travel could be permanently damaged due to the success of digital meetings across video platforms during the pandemic. In addition, it is unknown how long it will take for holiday travellers to feel comfortable getting on international flights. Until there is a vaccine, people might stay close to home.

Another factor to consider is the potential surge in fuel prices. Refineries shut down production of jet fuel in the past couple of months amid the plunge in demand. As oil prices rise and airlines begin to ramp up capacity, there is a chance jet fuel prices could soar. This would put added pressure on Air Canada’s margins.

Travellers are already complaining about high seat prices and might balk at fare hikes caused by rising fuel costs.

Should you buy, hold, or sell Air Canada stock today?

Air Canada trades at $19 per share at the time of writing. That means the investors who’ve bought the stock issue in recent weeks are already sitting on some nice gains.

The shares traded above $50 in February and closed as low as $12 at the worst of the sell-off. Traders are playing the volatility and popularity of the airline stocks to score quick profits. Investors with a buy-and-hold strategy need to have strong stomachs to ride out the turbulence.

Air Canada is in better financial shape than many of its international peers, but risk remains due to the variety of unknown factors that fall beyond the company’s control.

If you already own the stock, you might as well hold the position. Investors who think the travel industry will rebound quickly might want to start nibbling on additional weakness.

That said, I would search for other cheap stocks in the market today.

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