# Air Canada (TSX:AC): 5 Reasons to Avoid This Stock

**Description**

Frankly, for most investors, Air Canada (TSX:AC) stock should just be completely avoided. Here are five reasons why Air Canada is not a good buy in this environment.



## Air Canada stock is very volatile

First, the stock is incredibly volatile. The stock has a beta of 2.06, which means Air Canada's stock is two times more volatile than the market. This is obvious in the way the stock has traded.

At the start of June, Air Canada's stock roared up 39% in just six days. Last week, it tanked 23% before rallying 8.7% on Friday alone. Unfortunately, Air Canada and other airline stocks have become a major instrument for day traders and speculators.

Stock markets are becoming more bearish over concerns around a COVID-19 resurgence and general economic fears. If markets were to decline, you can expect Air Canada stock to see twice as much downside.

## It is in survival mode

Second, Air Canada is simply in business survival mode. In May, the company was burning upwards of $22 million a day in cash. It has taken a number of extreme measures to reduce this, such as cutting half its work force and raising $1.6 billion of debt/equity to bolster its balance sheet.

While these steps help temporarily, the company still has an enormous debt load. The longer it operates at a fraction of normal capacity, the less likely it will be able to meet its debt obligations and covenants.

## COVID-19 could be a long-term overhang

Third, the COVID-19 virus will continue to be an overhang on Air Canada stock. There is just no clear time frame when normal operational capacity will return. Right now, international travel is completely unpractical as long as quarantine restrictions are in place.

In terms of domestic travel, flying right now is just less enjoyable (the airlines don't even serve coffee any more), and less convenient (long airport screening lines). Also, in some instances, airplanes are only packed at 50-60% capacity due to social distancing seating measures. This can only mean an increase in costs for customers, and potentially pressured demand for non-essential travel.

## Airline demand is pressured by technology

Fourth, the pandemic crisis might permanently alter Air Canada's traffic volumes. Technologies like **Zoom** and **Microsoft** Teams are creating new ways of working, conferencing, and connecting. Certain business conferences, events, and meetings may now just be held over video-conferencing mediums. Business travel may never return to previously normal volumes.

Similarly, it will take some time for people to feel comfortable and safe travelling to vacation destinations. These are both very large parts of Air Canada's business.



## Circumstances are out of its control

Finally, if you combine all these factors, I just can't see a reason why Air Canada is good stock to buy today. There are so many variables that are out of Air Canada's control. It is difficult to project what a recovery will look like. By its own admission, Air Canada does not foresee a return to normal operations for at least three years.

The fact is, the company is losing a massive amount of money, every day. It will have to keep coming to the market (or the government) for capital if conditions like this persist for longer than expected.

## Air Canada stock is speculative at best

In my opinion, Air Canada is a speculative stock at best. There are many **TSX** stocks that are expanding and thriving, even in this environment. Why would I waste my time speculating when I can invest in stocks with real tangible earnings and growth?

Yes, one day in the future, airline volumes will return, and stocks like Air Canada hopefully will accrete positive earnings again.

But for now, I'm waiting on the sidelines until the world normalizes and the stock becomes an investment, not just speculation.

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robbybrown