How Long Until Air Canada (TSX:AC) Sees International Sky?

Description

Airlines around the world are bleeding cash, as the international borders remain closed for all but essential travel. The second quarter was the darkest period for most airlines, including **Air Canada** (TSX:AC), which earns 70% of its revenue from long-haul international flights.

The airline has grounded up to 90% of its capacity and is burning $20 million in cash daily. At this rate, its net loss is likely to double from $1 billion in the first quarter to $2 billion in the second quarter. AC and other major airlines need to put their planes back in the international sky before they bleed to bankruptcy.

Air Canada urges Justin Trudeau to ease international air travel restrictions

Prime Minister Justin Trudeau has shut the non-essential international air travel from March 21 to June 21. However, Chinese authorities reimposed some travel restrictions after China witnessed a second wave of the pandemic. In the light of this new development, Trudeau extended the international air travel ban to July 21.

AC is urging Justin Trudeau to relax travel restrictions. Instead of mandating the 14-day quarantine for all passengers traveling from abroad, it is suggesting targeted quarantines for passengers returning from higher-risk countries. In a virtual National Bank event, AC CFO Michael Rousseau said that international travel would only pick up when the government eases travel restrictions.

The prolonged travel restrictions and passengers' reluctance to take long-haul flights will slow down the recovery of AC. Fitch downgraded AC, as it expects a steeper downturn this year and a slower recovery next year.

International travel will take three years to return to pre-pandemic levels

There are many precursors before international travel resumes. Countries have to make progress in containing the pandemic. Passengers traveling from distant countries have to feel safe that they are not carrying or catching the virus during their travel. The future air travel demand is highly uncertain, as more passengers are booking flights just three days or less before departure.

Back in 2002-2003, the SARS epidemic took nine months to be contained. At that time, AC lost $5 million per day. The COVID-19 pandemic is worse than SARS, and AC is losing four times more money per day.

The International Air Transport Association (IATA) estimates that global airlines will lose $84 billion this year and $16 billion next year. This loss is over three times more than what global airlines accrued after the 2008 financial crisis. IATA, Fitch, and even AC CEO Calin Rovinescu do not expect global long-haul air travel to return to the pre-pandemic level before 2023.

Air Canada sees an uptick in domestic bookings

While international travel demand remains bleak, domestic air travel is returning. Many Canadian provinces have lifted travel bans after a slowdown in the growth of COVID-19 cases and deaths. The domestic bookings are mostly from leisure customers. Michael Rousseau expects domestic business travel to return in September, followed by international leisure and business travel in the fall.

If a second wave of the coronavirus breaks out in the fall, the air travel recovery could be delayed further. Many airlines, including AC, have undertaken safety measures, such as mandatory pre-flight customer temperature checks, empty adjacent seats in economy class, and passenger care kits. These additional measures will increase per-passenger costs, which means the airline will continue to burn cash on domestic flights.

Investors' takeaway

The longer it takes for global long-haul travel to return, the weaker AC's chances of surviving. One positive thing for the airline is that it entered the pandemic with stronger liquidity than the previous crisis. But the COVID-19 crisis is increasing its debt and diluting its equity, thereby nullifying its years of effort in building its balance sheet.

There is no V-shaped recovery for AC stock. After the 2008 financial crisis, it took the share four years to return to growth. Avoid investing in this stock for the next three years, as they will be challenging for the stock.

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