What's Next for Air Canada (TSX:AC) Amid its Growing Troubles?

Description

Air Canada (TSX:AC) investors just can't stop worrying, as troubles for the struggling airline keep on soaring. While the stock has surged 20% in June, it still trades 60% lower from its levels earlier this year. Importantly, Air Canada stock might continue to trade weak in short to intermediate term on the back of growing worries.

Air Canada: Liquidity concerns

Air Canada CFO recently indicated the need for additional financing, despite raising $1.6 billion earlier this month. The company is better placed on the liquidity front at the moment. However, the need for additional financing underlines the looming pain.

Airlines are some of the hardest-hit sectors amid the COVID-19 pandemic. Broader markets, including Air Canada stock, have seen a remarkable recovery in the last three months, as economies re-open after lockdowns. However, the slower recovery and rising active cases of the virus highlight that things will not be as smooth as expected earlier.

The country's biggest airline company, Air Canada, operated with some 10-15% of capacity during the first quarter. The situation is not significantly different in the second quarter. However, despite extensive job cuts and reduced operations, the airline continues to burn sizable cash, which might make things more unpleasant for the company.

A rating downgrade

To add to the woes, Fitch Ratings downgraded Air Canada earlier this week, citing the slower recovery in the air travel. It has maintained a negative outlook for the airline. The rating agency also highlighted the airline's strong liquidity position, which will help survive the ongoing crisis.

A credit downgrade generally means that the company might have to raise new debt at more unfavourable terms in the future.

Air Canada is gradually restarting operations and has also seen some notable improvements in domestic bookings. However, the second wave of the pandemic and lockdown extensions could substantially hamper these green shoots. The company has already conveyed that it expects around three years' time to normalize air travel demand. The second wave might notably delay this recovery further.

On the positive side, a sooner-than-expected cure for COVID-19 could fuel a much faster recovery. Many economists still expect a "V-shaped" recovery during the second half of the year. Even if the recovery takes time, I think Air Canada's scale, strong balance sheet, and robust market share could help a stronger emergence from the crisis.

The Foolish takeaway

I still do not see Air Canada as a great investment at this point. Its longer expected time for revival indicates a prolonged dent on its financials, which will drive its near-term market performance.

Additionally, more capital raisings will likely dent existing shareholders further, lowering their claim on its earnings. AC stock will most likely continue to trade extremely volatile, as it has been in the last few months. For Air Canada to become an attractive long-term investment again, I would prefer certainty over its operations and, more prominently, no multiple waves of the pandemic.

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Author
vinitkularni20