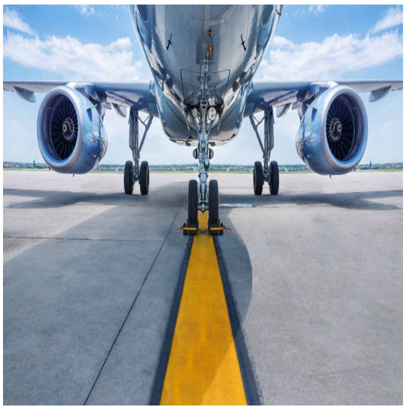

Air Canada Investors: Read These Statements Now

Description

Air Canada (TSX:AC) investors are nervous. And they should be. The airline industry has never experienced a challenge like COVID-19.

Yet there's also room for optimism. In normal conditions, this is a phenomenal stock. From 2012 to 2019, share rose by 2,000%. If the global situation stabilizes, this company could be back to business as usual, likely leading to big gains for shareholders.

Investing in Air Canada today is a direct bet that the COVID-19 crisis won't persist for years. Dozens of epidemiologists have weighed in on the situation, but we also have new predictions from company executives.

If you own stock in *any* airline, pay close attention to what this management team has to say.

The long winter

There's no doubt that 2020 will be challenging for airlines. Most operators have slashed annual capacity by at least 80%.

"The past quarter was the first in 27 consecutive quarters that we did not report year-over-year operating revenue growth," revealed CEO Calin Rovinescu. "We are now living through the darkest period ever in the history of commercial aviation."

Thus far, at least, there haven't been any major bankruptcies thanks to last-ditch fundraising efforts. Last week, Air Canada shored-up its financial position with a $1.6 billion capital raise. The financing included both debt and share issuance.

CFO Michael Rousseau stressed that travel restrictions and the associated pandemic "destroyed demand and depleted cash." The company lost more than $1 billion last quarter alone. To put that into perspective, the current market cap is just $4.9 billion.

While the latest cash raise is encouraging, the fact remains that the company can’t survive many more quarters like this. Exactly how long will current conditions persist? Air Canada’s CEO weighed in on the last conference call.

“It is our current expectation that it will take at least three years to recover to 2019 levels of revenue and capacity,” warned Rovinescu. “We expect that both the overall industry and our airline will be considerably smaller for some time, which will unfortunately result in significant reductions in both fleet and employee levels.”

Trust Air Canada stock?

If we assume that airline executives know their business best, it’s going to be an extraordinarily difficult few years. It’s hard to overstate how challenging it will be.

These companies are cash intensive, with high fixed costs. If they’re not running at or near full capacity, airlines hemorrhage cash. **Delta Airlines**, for example, reportedly burned $50 million *per day* last quarter.

If we do the math for Air Canada, it’s not hard to verify these claims. A $1 billion loss last quarter equates to daily losses of $11 million.

When conditions normalize, surviving airlines will thrive, even if the overall market opportunity is smaller. That’s because they’ll feast on market share ceded by their defunct competitors. But how do we know which stocks will survive?

At the end of 2019, Air Canada had $7.4 billion in liquidity. Subtracting the quarterly loss and adding the recent capital raise results in $8 billion in total liquidity. A back of the envelope calculation suggests the business has eight quarters left of survival.

There could be additional debt and share issuances, but if COVID-19 conditions persist for another year or more, new money will be difficult to source.

We have no idea what the future holds. Air Canada’s executives were honest in their statements. Times are dark, and uncertainty is rampant.

This is no time to be investing in airline stocks, especially since there are other market bargains worth buying right now.

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