Will Air Canada (TSX:AC) Investors Catch a Break This Year?

Description

Air Canada (TSX:AC) has been one of the worst-hit Canadian stocks amid the COVID-19 pandemic. The airline company has lost over 60% of its market cap this year and is unlikely to recover anytime soon.

After touching the March lows, Air Canada stock bounced back strongly on investors' optimism over the reopening of the economy. Despite the recent rally in Air Canada stock, it is down about 65% this year. Moreover, it is trading about 68% from the 52-week high of $52.71.

Investors should note that Air Canada is dealing with several issues, which implies that the rally in its stock could fizzle out soon.

Lower revenues and mounting losses

Air Canada's revenues have taken a drastic hit, as the company had to shut its domestic as well as international operations in March in the light of COVID-19. Unfortunately, the company also broke its long streak of reporting positive operating revenue growth. Investors should note that Air Canada had generated positive operating revenue growth in the last 27 consecutive quarters before the pandemic took a toll on it. Air Canada also incurred a net loss of over $1 billion in the first quarter due to a sudden halt in its operations.

While the resumption of domestic flights should bring some respite, I do not expect international flights to resume anytime soon. Even if international flights resume, traffic is likely to remain very low. Meanwhile, the restarting of domestic flights would only hurt its profits due to lower capacity. Emphasizing on the challenges in the airline industry, Air Canada itself does not expect to generate pre-pandemic level operating performance for at least three years. The ill-effect of COVID-19 on Air Canada's business will continue to remain a drag in the near term.

Earlier, on June 15, rating agency Fitch, downgraded Air Canada's long-term issuer default rating, citing similar issues.

High debt level and cash burn

Air Canada is reeling under high debt and is bleeding cash. Its net debt levels almost doubled this year and stood at $4.17 billion at the end of March 31. With limited flights, the company is facing a higher cash burn. Investors should note that the airline company was burning around $22 million in cash every day in March. The company is now operating more cargo jets to reduce the cash burn.

Bottom line

The company is making every effort to infuse liquidity and stay afloat during this challenging time. The company has raised around $5.5 billion in liquidity since mid-March. Moreover, it has furloughed more than half of its employees to save on costs. The company's cost-transformation program, along with capacity rationalization also helped in significant cost savings.

Despite these measures, the future of the ailing airline company looks bleak. The airline company operating at 10-15% of its capacity isn't likely to help its case either. I do not expect a turnaround in Air Canada stock in the foreseeable future. Investors should strictly avoid Air Canada stock, given too much uncertainty and the fear of the second wave of the pandemic in China.

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