



Why Air Canada (TSX:AC) Fell 9% Last Week

Description

Air Canada ([TSX:AC](#)) has experienced a tumultuous roller-coaster journey in the past several months. The flagship Canadian airline is not alone. The entire transportation sector and airlines in particular are in a crisis that this industry has never seen before due to the onset of COVID-19.

Strict quarantine restrictions, borders closed in almost every country around the world, and mounting health concerns surrounding travel are collectively leading to less-than-adequate passenger volumes.

Like its peers, Air Canada was already struggling with high debt levels, which might have become insurmountable due to the effects of this global health crisis. Substantial operational and maintenance costs without earnings make it almost impossible for airlines to survive, let alone thrive, during this time.

Capital markets to the rescue

Capital markets have been very supportive. At the beginning of June, the airline completed an equity and debt offering of \$1.6 billion. It raised an additional \$1.23 billion through private debt to further boost its liquidity. The airline is collectively sitting atop \$9 billion of cash to help it weather the coronavirus crisis.

The move for liquidity might have made it possible for the stock to avoid hitting \$0 on the Toronto Stock Exchange. The airline continues to burn through exceptionally high amounts of cash with no earnings to offset its expenses. The airline is making moves to reduce operational costs, canceling plane orders, and scaling down its workforce to remain alive.

The developments, along with additional funding, helped the [stock rally](#) for a little while. Between May 13 and June 8, 2020, the stock climbed 65.89%. However, the climb was short-lived, and it is down by almost 27% since its June peak.

Nowhere near out of the woods

All the fund-raising may help the airline increase its overall liquidity. Simultaneously, the increased liquidity has come at the cost of diluting current shareholder equity in the company. Air Canada also has to service and repay the massive new debt it has incurred in the form of bonds, notes, and debentures.

The airline's underlying problems amid a pandemic that does not seem like it will end any time soon continues to spray jet fuel over the speculative fire for the stock market. Air Canada is a company that may be cheaper than it was a year ago, but it no longer possesses the fundamentals that might make it an attractive buy for investors.

Foolish takeaway

Investors who continue to [place their faith](#) in the airline are banking on the stock to recover. There is a chance that airlines might recover substantially if borders open up. Still, there is speculation that people might not be too eager to travel immediately after lockdowns end (whenever they do). The health concerns might leave a lasting impact on many.

The management admits that it could take years for the company to regain its operational volumes and earnings from the pre-pandemic era — *after* the travel restrictions end. I think it would be best to avoid the stock if you are risk-averse. If you want to bet on the stock, I would only suggest investing what you are willing to lose.

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