



## Will Air Canada (TSX:AC) Stock Revisit \$10 Levels?

### Description

Shares of the country's biggest airline, **Air Canada** ([TSX:AC](#)), have exhibited tremendous weakness this year. Air Canada stock fell below \$10 in March, a fall of more than 85% in just a few weeks on the back of the pandemic.

Fast forward to today, the stock has fairly recovered and is trading around \$17 apiece. However, the flag carrier's outlook, at least in short to intermediate term, remains gloomy.

### Air Canada and mounting uncertainties

In a recent [interview](#) with the *Financial Post*, Air Canada CEO Calin Rovinescu said, "This is hundreds of times worse than 9/11, SARS, or the global financial crisis — quite frankly combined.... We never got to the level when we were only operating at five per cent in any of those circumstances, you know, other than the three days of shut-down post 9/11."

Air Canada is burning significant cash while operating at just 10-15% of its total capacity. While the airline has raised more than \$5 billion to fund its fixed costs, it has not received any direct government aid so far. Despite extensive job cuts and reduced operations, the airline continues to burn substantial cash, which might make things more unpleasant for the company.

Investors should note that its current strong cash position could also come under grave pressure if these hostile conditions persist for longer.

### Will Air Canada stock retest its March lows?

What is even more concerning for Air Canada and its investors is the recent acceleration of the coronavirus cases. Some improvement in the bookings recently amid economies re-opening was a comforting signal for the company.

However, the current surge in cases could terminate those green shoots. This might delay easing

border restrictions, which [Air Canada management](#) has been strongly pushing for.

The \$7.4 billion airline reported deep losses during the first quarter of 2020. Second-quarter earnings, which will probably be released in late July, are expected to be a lot uglier.

The management expects three years' time to reach its revenues to pre-pandemic levels. The prolonged recovery indicates more losses, weakening balance sheet, and ultimately lowering stock.

## The Foolish takeaway

In my view, the recovery for Air Canada might take long, but I don't think air travel is going to change considerably post-pandemic. Air Canada's fleet size, market share, and operational efficiency will be keys to its recovery. Also, a sooner-than-expected vaccine launch for COVID-19 could fuel a much faster recovery.

The so-called market pundits are recommending Air Canada stock based on its insanely cheap valuation. However, a weak earnings outlook and severe balance sheet stress paint a bleaker picture. Its upcoming quarterly earnings will likely make things reasonably clear about its future path.

So, in a nutshell, I think Air Canada stock will remain weak at least in the short to medium term. The near-term uncertainties are so dominating that investors might get better levels for Air Canada stock later this year.

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### Date

2025/08/27

### Date Created

2020/06/30

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