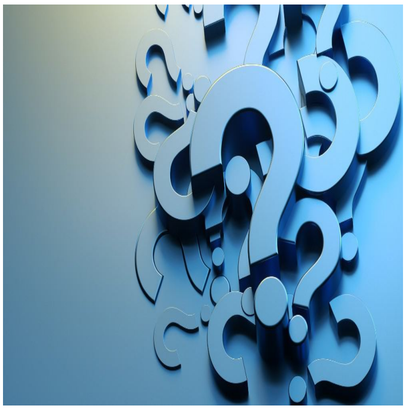

Is This TSX Stock a Silent Killer in Your Portfolio?

Description

Weak global cues, high unemployment rate, low economic activity, rising infections strongly hint that the stock market could crash again. With too much uncertainty, now is the time that investors should reshuffle their portfolios by adding quality stocks and reducing exposure to the ones that can severely damage their portfolios.

Air Canada (TSX:AC) is one such **TSX** stock that could prove to be a wrong investment in 2020. Investors should strike out this Canadian airline stock, even though it is trading cheap. Another market crash or the second wave of the virus could prove disastrous for Air Canada stock and can ruin your entire portfolio.

Air Canada stock has destroyed investors' wealth

Little did we know at the beginning of this year that coronavirus would turn out to be a global pandemic and hurt the airline industry this badly. Air Canada stock, which reached its high of $52.71 in mid-January, fell drastically, destroying a significant portion of investors' wealth.

Though Air Canada stock rebounded strongly from its March lows on hopes that the reopening of the economy will help lower the cash burn, it's still down about 64% year to date. Further, the rally in Air Canada stock fizzled out soon, indicating that there's even more pain ahead.

Losses are mounting

Air Canada is sitting on huge losses as its flights remain grounded and are not operational since March amid stay at home orders and travel restrictions. Air Canada posted a loss of $1.05 billion in the most recent quarter, reflecting a decline in revenues and higher cash burn.

The company's revenues are under pressure while the airline is burning cash as its planes remain grounded. Investors should note that the company reported about a 16.4% decline in operating revenues, which broke its long streak (27 quarters) of delivering positive operating revenues. Also, Air

Canada's net cash burn was $688 million in March, which turns out to be $22 million every day.

While the resumption of operations should bring some respite, traffic could continue to remain low. The risk of infection would restrict travellers from flying, which isn't a good sign for airline companies.

Can Air Canada recover its losses?

Air Canada is keeping no stone unturned to stay afloat amid these challenging times. The company has already raised around $5.5 billion since mid-March and is eyeing $1.1 billion in cost savings. The company has reduced around 20,000 of its employees and permanently removed around 79 aircraft to bolster liquidity.

Air Canada has recently discontinued 30 regional routes along with eight stations at domestic airports in Canada to reduce the cash burn as the company is likely to fly with limited capacity in the coming quarters.

However, a high debt burden, growing cash burn, and the slow pace of recovery could continue to hurt Air Canada's prospects. Earlier this month, Fitch downgraded Air Canada's long-term issuer default rating expecting a slow recovery.

Besides, the rising number of coronavirus cases, indicate that the traffic might not return to the normal levels anytime soon, especially for the business and leisure travels.

The persisting headwinds imply that Air Canada will take a significant amount of time to recover its losses and reach its pre-pandemic levels.

CATEGORY

1. Coronavirus

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1. TSX:AC (Air Canada)

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1. Coronavirus

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