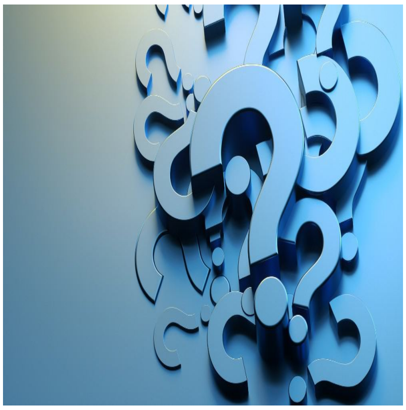

Air Canada (TSX:AC) Stock Below $18 Again: Should You Invest?

Description

Last month, **Air Canada** (TSX:AC) sank below $18 again after a brief rally that sent it as high as $23. As of this writing, it was trading for just $17.2. While the broader markets have been rallying, Air Canada has resumed the slide it began in the COVID-19 market crash.

A number of factors contributed to this development. In June, fears of a "second wave" of COVID-19 in the southern United States sent ripples through the airline industry. More recently, Air Canada decided to cut 30 regional routes within Canada. Most likely, both of these developments influenced AC's recent price movement. The former demonstrated major risk factors impacting airlines in general, while the latter confirmed that Air Canada itself is still facing operational issues.

Taken as a whole, recent developments indicate that there's more pain to come for Air Canada shareholders. In fact, the company's own management seems to agree.

Executives forecast a three-year recovery

When looking at Air Canada stock, plenty of negatives are readily apparent. You've got last quarter's $1.05 billion loss. You've got the likelihood, based on employee reports, that Q2's loss will be even larger. Then you've got the fact that the company is still cutting routes, even after the COVID-19 re-opening in most parts of the country.

But perhaps the biggest red flag is the company's own statements.

In its Q1 press release, Air Canada said, in no uncertain terms, that it would take three full years to get back to 2019 revenue levels. The company's recent actions, such as route cuts, confirm this. It was never guaranteed that the economic re-opening would bring air travel back. The possibility was always there that individual travelers would remain wary, even after lockdown orders were lifted.

Now, it's beginning to look like that's what's happening. When Air Canada announced last week that it would be cutting 30 routes, it cited only reduced customer demand. There were no new travel restrictions brought in in the affected areas. In fact, the Atlantic region — where many routes were cut

— recently implemented a "travel bubble," that allowed residents to travel from province to province without self-isolating. The lower demand coupled with relaxed lockdown measures indicates that customers are *voluntarily* opting out of air travel. That in turn suggests the potential for prolonged revenue weakness.

Long-term considerations

In all likelihood, Air Canada won't collapse entirely.

As Canada's "national" airline, it is crucial to the country's economy. Most likely, if Air Canada couldn't pay its bills, it will receive government assistance. The company is too vital to national prestige to just let it die.

Still, that doesn't mean that its stock is a buy. Any funding that Air Canada receives in the future will have strings attached. Equity financing will dilute shareholders' claim on earnings. Debt financing will affect the balance sheet. We've already seen Air Canada dilute equity by issuing new shares. A government bailout would have similar effects.

So, basically, while Air Canada will survive, it's going to have a rough go of it for several more years.

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