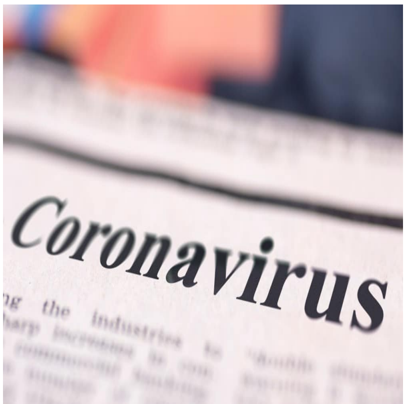

Air Canada (TSX:AC) Stock Cracks Over 30% — and the Turbulence Continues

Description

The passenger airline industry received a big blow from COVID-19. As flights remained grounded amid travel restrictions, losses continued to mount. Stock prices of big airline companies around the world nosedived, and **Air Canada** (TSX:AC) is no exception.

However, optimism over the reopening of the economy and recommencement of operations lent support to the struggling airline companies and supported the recovery in their stocks. Despite the optimism, I have long maintained that the pain for the passenger airline companies isn't likely to end soon. I stressed the fact that the recovery in Air Canada stock could be short-lived and could crack soon.

Air Canada's stock price collapsed in March. However, it bounced back sharply in the next couple of months by rising over 90% from its March lows. However, it is unlikely that Air Canada could catch a break this year, as the fresh jolt to the airline companies is likely to come in the form of reduced traffic and revenues.

Markets largely anticipated this, as reflected in Air Canada's recent stock performance. Air Canada stock cracked over 30% in one month, thereby eroding its gains.

Will turbulence continue for Air Canada?

If you've been reading my recent articles on Air Canada, you probably know the company's problems are here to stay, at least for the foreseeable future. The prolonged impact of the virus would inflict more pain on Air Canada, as generating revenues with the pandemic in the background will be very tough.

While its revenues remain pressured, the company's losses could mount even after drastic cost-cutting measures.

On June 30, Air Canada announced an indefinite suspension of services on 30 domestic regional routes. Moreover, it also closed eight stations in Canada. Continuing weak demand for business and leisure travels forced Air Canada to suspend these services to reduce overall costs.

Earlier, the airline company announced company-wide structural changes to cut costs, such as reducing its staff by 50% to remain afloat amid this turbulent time.

Despite all the measures, however, the recovery will take a long time. Air Canada itself projects that the airline industry will take at least three years for the recovery. The slow pace of recovery has forced the credit rating agency, Fitch, to downgrade the company’s long-term issuer default rating.

Now what?

While Air Canada witnesses violent turbulence, air cargo companies have emerged as an attractive investment option in the aviation sector. Take **Cargojet** (TSX:CJT) as an example. The company has performed exceptionally well and continues to boost investors’ returns.

Shares of Cargojet are up over 60% this year. Moreover, it has consistently increased over the past several years, rising close to 500% in five years.

Unlike Air Canada, however, Cargojet’s revenues are not dependent on passenger traffic. Rather, it generates revenues from time-sensitive overnight air cargo services. Its business has been resilient, with growth across all segments.

Air cargo service will continue to witness sustained demand, driving Cargojet’s cash flows and its stock. Investors willing to bet on the aviation industry can consider Cargojet stock for steady gains.

CATEGORY

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