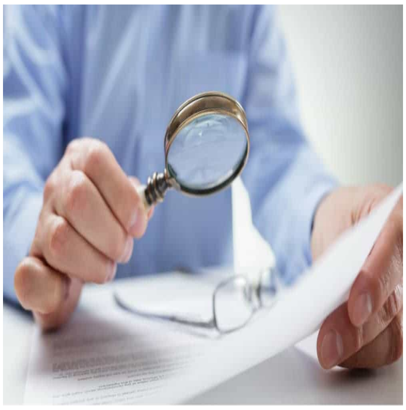

$1,000 Invested in Air Canada (TSX:AC) Stock at the Start of 2020 Would Be This Much Now!

Description

The Canadian financial market has been highly volatile this year. The pandemic-led selloff in March was one of the worst that I can remember. What's even more surprising is the sharp recovery rally. The benchmark index recouped almost all of its losses and is down about 9% year to date. Besides, most of the stocks listed on TSX came roaring back.

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However, there are still a few top TSX stocks that continue to struggle and have lost a significant portion of their value. **Air Canada** (TSX:AC) is among them. The once high-flying stock has turned out to be poor investment this year. The pandemic stalled Air Canada's operations, while the company burnt cash, which resulted in a massive drop in its stock price.

As its planes were grounded, Air Canada reported a net loss of over $1.05 billion in the first quarter. Meanwhile, its net cash burn stood at $688 million in March. Moreover, its losses could continue to mount in the second and third quarter.

Investors should note that Air Canada stock is down a staggering 66.6% year to date, implying that if you'd invested $1,000 in its stock at the start of 2020, it would be worth a paltry $333 now. Comparatively, another Canadian airline stock, **Cargojet**, is up over 60% this year.

The struggle continues

While the reopening of the economy and resumption of flights brings hope, getting the traffic back is tough. The COVID-19 cases continue to rise, and we are nowhere close to getting a vaccine anytime soon, which isn't a good sign for airline companies.

The demand for leisure and business travels could continue to remain weak, dashing hopes ofrecovery in the near to mid-term. The prolonged travel restrictions imposed by countries around theworld could hurt Air Canada badly, as the company generates a significant portion of its revenues frominternational operations.

I've been stressing on the fact that international traffic is unlikely to return anytime soon, as people could continue to stay away from traveling abroad for their safety. Meanwhile, running operations with limited capacity could add to Air Canada's losses.

Citing slower-than-expected recovery, Fitch downgraded Air Canada's ratings, which strengthens my bear case.

Cost-reduction measures were announced to stay afloat

Air Canada has announced several cost-reduction measures to lower the cash burn and stay afloat amid challenges. It announced company-wide cost-control and capital-deferral programs that are likely to result in $1.1 billion in savings. It has laid off over 50% of its staff.

Moreover, the company suspended services on its 30 domestic regional routes indefinitely to reduce the cash burn rate amid weak demand.

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Now what?

Even with the cost-reduction measures in place, Air Canada could continue to struggle on the cash flow front. The reduction in traffic, a continued cash burn, and high debt could weigh on its operations and, in turn, its stock.

Air Canada expects the airline industry to take at least three years to reach the pre-pandemic level, implying that the recovery in Air Canada stock could take time.

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