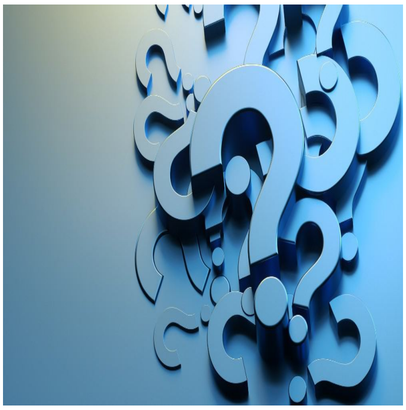

Could Air Canada and Chorus Aviation Fall Further in Q3 2020?

Description

The shares of **Air Canada** (TSX:AC) continue to be highly volatile amid the COVID-19 crisis. The stock tanked by 5.5% this morning after it zoomed up by over 13% yesterday. Investors seem to be keeping a close eye on each update related to the ongoing pandemic that has resulted in heightened volatility in airline stock lately.

The Canadian flag carrier has seen a massive 62.5% value erosion this year so far against a 5.9% decline in the **S&P/TSX Composite Index**. On a year-to-date basis, the shares of Halifax-based **Chorus Aviation** (TSX:CHR) have tanked by 65.6%.

Air Canada has seen a 7.4% recovery in this month so far as compared to 6.7% losses in Chorus Aviation. Let's take a closer look at these companies' recent fundamentals and find out whether these are stocks that can fall further in the ongoing quarter.

Recent fundamentals

In the first quarter, Air Canada's revenue fell by 16.4% on a year-over-year (YoY) basis. However, its second quarter results will see the pandemic's real negative impact as analysts expect its revenue to drop by 90.7% in Q2. In the first-quarter earnings report, the airline's management warned investors — highlighting the severity and abruptness of the COVID-19 crisis.

Similarly, Chorus Aviation — which reported a 23.1% YoY rise in its first-quarter earnings — is expected to report a 31.3% decline in the second-quarter earnings. Analysts expect the company's Q2 revenue to fall by 48% YoY against a 1.8% rise in Q1.

In its first-quarter earnings report, Chorus Aviation — like Air Canada — blamed strict travel restrictions and global cancellations for hurting its business.

What airlines are doing to recover

Most of the countries globally are currently focusing on letting the ongoing pandemic subside before completely reopening the economy and left travel restrictions. Nonetheless, many airlines have lately started talks with the government to ease travel restrictions.

Their argument makes sense, as most of the airlines are already in bad financial shape after months of closure, and many of them might not even survive if the travel restrictions are not lifted soon.

Yesterday, Air Canada's chief medical officer urged the government to consider easing the travel restrictions with a science-based approach. In a letter to Justin Trudeau administration, the airline argued that there has been no change in the *Quarantine Act* restrictions since March.

Air Canada urged the administration "to strike a better balance for travellers and for the Canadian economy without adversely impacting public health."

As daily coronavirus cases in many U.S. states are at their record highs, the airline made it clear that it "is not proposing relaxing the U.S. border restrictions at this time."

Foolish takeaway

There is no relief in sight for the airline industry at the moment. The prolonged pandemic-related restrictions — due to rising fears about the second wave of COVID-19 — are diminishing the recovery hopes and dimming the airline industry's outlook. These factors could continue to badly hurt investors' sentiments and drive airline companies lower in Q3.

However, after a massive over 60% year-to-date decline in the shares of both — Air Canada and Chorus Aviation — any indication of easing travel restrictions could trigger buying spree and help them recover sharply. This is the reason why you should buy these stocks only if high volatility fits within your risk parameters.

CATEGORY

1. Coronavirus
2. Investing

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