



Air Canada (TSX:AC) Stock Below \$17: Should You Invest?

Description

It's not just investors in **Air Canada** ([TSX:AC](#)) who have felt disappointment this year. Even Prime Minister Justin Trudeau is disappointed.

Two weeks ago, Canada's largest airline announced it was halting flights on 30 domestic routes. The airline cited persistent weak travel demand due to the COVID-19 pandemic. Air Canada is also closing eight stations at regional airports.

In expressing his disappointment, [Trudeau remarked](#), "We are obviously disappointed by the decision by Air Canada to cut services to some regions. We know Air Canada profits from the most profitable routes in the country, but we expect them to serve people who live in more distant regions."

Part of Trudeau's frustrations stem from the fact that 22 of the 30 suspended routes are in the Atlantic provinces and Quebec. Many of these communities are underserved by mass transit. Air Canada's decision to no longer serve these locations exacerbates the situation.

COVID-19 shutdowns plague industry

The airline industry has been among the hardest hit during the COVID-19 shutdown. The company is forecasting its third-quarter capacity will decline at least 75% from a year ago. Hurt by drastic travel restrictions and border closures, Air Canada warned investors that prospects were dimming for a near-to mid-term recovery.

Since the pandemic began, the company has saved approximately \$1.1 billion through its cost-reduction and capital-deferral program. These savings included reducing its staff by 50%, or about 20,000 employees, and permanently removing 79 aircraft from its fleet.

Air Canada investors feel the heat

Trading at \$16.93 as of this writing, shares of Air Canada have rebounded somewhat from their recent

low of \$9.26. Unfortunately for investors, the stock is significantly down from its 52-week high of \$52.71.

Last quarter, Air Canada lost an [astonishing \\$1.05 billion](#). When the company announces second-quarter results on July 31, investors are expecting that this quarter's losses will be even larger, based on employee reports.

Investors hoping for a quick turnaround, as most of the country reopens, should brace themselves. The company does not anticipate returning to last year's revenues for another three years. Analysts are uncertain when and if the travelling public will feel safe to return to the skies.

Not the first time of a dire financial future

This is not the first time Air Canada has faced a dire financial future.

In 2003, Air Canada went through a bankruptcy and a corporate restructuring. In 2012, the company narrowly avoided bankruptcy when another virus, SARS, curtailed air travel.

During the SARS outbreak, Air Canada reported a first-quarter loss of approximately \$350 million. As capacity dropped almost 20% during the busy summer months, the company temporarily grounded 40 planes and dropped a dozen routes.

The bottom line

This is not uncharted territory for Air Canada, and it is certainly not the first time the stock has disappointed investors. However, it has been a long time since the future of air travel looked so bleak.

While no one knows when the demand for air travel will return to pre-pandemic levels, Air Canada will emerge from this crisis.

With the stock trading below \$17, patient long-term investors will eventually be rewarded. Be prepared, however, for more turbulence ahead, as we wait for the smooth sailing of the past decade to return.

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Date

2025/08/27

Date Created

2020/07/21

Author

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