Is Air Canada (TSX:AC) Stock a Safe Investment Today?

Description

Air Canada (TSX:AC) started the year at $50 per share. Today, the stock price is close to $17 and contrarian investors are wondering if the upside potential now offsets further downside risks.

Let's take a look at the current situation to see if Air Canada stock deserves to be on your buy list right now.

Travel restrictions

Pandemic lockdowns and travel restrictions continue to threaten Air Canada's recovery.

Canada remains closed to air travel visitors from other countries. The government also just extended the closure of the land border with the United States for another month. Only essential services workers, such as track drivers and healthcare personnel can move between the two countries.

With the pandemic seeing a new surge across most of the U.S., it is unlikely U.S. visitors will be allowed to fly into Canada in the near term. In addition, the hardest-hit areas, including Florida and Arizona, are normally big travel destinations for Canadians.

The spread of the coronavirus in these states could delay the recovery in flight bookings by Canadian retirees in the coming winter season.

In some regions of the world, however, governments are beginning to remove travel restrictions. The European Union recently decided to allow visitors from a select group of countries. Canada is actually on the list, so Canadians can book a holiday to EU-member countries. Canada has not yet reciprocated the decision.

Air Canada recently asked the Canadian government to allow visitors to resume travel to Canada from countries that appear to have the pandemic under control. For the moment, the country remainsclosed. The longer these measures remain in place, the more likely it is that Air Canada's stock couldretest the March 2020 closing low near $12 per share.

Health risks

Within Canada, air travel is available to most major locations. Air Canada announced plans to start selling middle seats again after keeping the spots open to help separate passengers on flights. Airlines claim that leaving the middle seats open puts them at a financial disadvantage. **United Airlines** recently said that blocking the middle seat is a "PR strategy" rather than a safety strategy.

Regardless of the scientific facts, people will likely feel less comfortable being packed on flights the way they were before the pandemic arrived. It will be interesting to see whether demand slows due to the decision to start filling the middle seats.

Airlines say they have put extra safety measures in place, but we keep hearing reports from local health authorities that people with COVID-19 are still getting on planes and flying between cities in Canada.

Liquidity

Airlines around the globe are filing for bankruptcy or securing massive bailouts from their home governments. Air Canada moved quickly to raise cash in recent months. As a result, the company has nearly $10 billion in liquidity available to help it get through the tough times.

This is a positive for the airline and the stock. However, Air Canada isn't out of the woods. In May, the airline said it was burning through more than $20 million per day. The company cut 20,000 jobs last month, so the cost structure will improve, but Air Canada can't afford to bleed cash for an extended period.

Fuel prices

Rising fuel prices could pose a big risk in the next two or three years. The energy industry cut so much investment in recent months that there is a risk oil prices could sure on a shortage of supply. Some analysts think US$100 per barrel is possible in the next 3-5 years.

If that happens, jet fuel costs would also soar, putting Air Canada and its peers under heavy cost pressures just as they are trying to get their capacity back to profitable levels.

The general consensus among air carriers is that the industry won't see a return to 2019 capacity for at least three years.

Should you buy Air Canada stock today?

Air Canada remains a risky bet until a COVID-19 vaccine is widely available. The uncertainties surrounding potential future lockdowns or extended travel restrictions make it difficult to determine a reasonable path to recovery for the airline industry.

Remember, Air Canada went bankrupt in 2003 as a result of the SARS outbreak and slipped from $20 per share to below $1 per share through the last financial crisis, before eventually staging a massive recovery.

I would look for other opportunities today.

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