



Air Canada (TSX:AC) Stock: What Should You Do?

Description

Will the fortunes of Canada's largest domestic and international airline change very soon? **Air Canada** ([TSX:AC](#)) has been in [limbo](#) for most of 2020 due to the devastating effect of the coronavirus outbreak on the aviation industry. In 2019, the airline stock was among the **TSX**'s top performers and one of the recent decade's best.

However, speculations are ripe regarding Air Canada's recovery prospects. The impact of COVID-19 on the industry is shocking that many airlines have filed for bankruptcy. For companies that are still operating, the [business outlook](#) is not encouraging. The question now is whether the stock is worth buying, or investors should dump it altogether.

Optimistic view

Air Canada is not lacking in supporters and maintains credibility. There's no bailout offer from the federal government, although the company got fresh funding from other sources. Since mid-March 2020, the financing deals sum up to \$5.5 billion. Its liquidity position is better and could offset the losses in Q1 2020.

A \$1.1 billion cost transformation program is in place, including a substantial reduction in the workforce. Similarly, Air Canada is doing all it can to ensure passengers' safety and enhance efficiency in the travel experience. Evaluation and assessment of additional touchless and new bio-safety measures are continuing.

Expectations are high that the air travel business and travel demand will rebound tremendously when the coronavirus vaccine becomes available. A pair of advanced experimental COVID-19 vaccines is in the pivotal phase of studies. The developers, **Moderna** and **Pfizer** are testing the vaccines on 30,000 people.

Pessimistic assessment

Management is preparing to release the Q2 2020 earnings results on July 31, 2020. If the financials in the previous quarter were worse, analysts believe the quarter results are far worse. Since capacity is only 10-15%, revenue could drop by more than 90% versus Q2 2019. The net loss could be in the billions again.

Air Canada is begging the government to relax travel restrictions so the company could do more business. Assuming the government accedes to the request to adopt a science-based approach to ease quarantine restrictions, it does not guarantee a smooth take-off.

Air Canada President and CEO Calin Rovinescu is managing expectations by saying it will most likely take three years to return to 2019 levels. Furthermore, it will operate at a considerably smaller size for some time.

Stock performance

Air Canada is losing by 66.3% year to date. From \$48.51 on December 31, 2019, the price sank by 75% to \$12.15 on March 18, 2020, at the height of the market selloff. It then rose by 92.5% to \$23.39 on June 8, 2020, after the consummation of the financing deals.

Since then, the price went downhill until news of a vaccine came out. On July 15, 2020, it climbed 13.8% from \$15.99 to \$18.20. Most airline companies, including Air Canada, are anchoring their futures on the success of the vaccine tests.

A COVID-19 vaccine for widespread use is the game-changer. However, whether to buy or sell the stock today depends on your appetite for risk.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Investing

Date

2025/08/26

Date Created

2020/07/31

Author

cliew

default watermark

default watermark