Market Crash: Is Air Canada (TSX:AC) Stock a Buy at $15?

Description

Air Canada (TSX:AC) just reported results for Q2 2020 that show how bad things got amid the worst of the pandemic lockdowns.

Let's take a look at the current situation to see if this is the right time to take a contrarian position in Air Canada stock.

Air Canada's Q2 results

Air Canada lost $1.75 billion in the three months ended June 30, 2020. That follows a $1 billion loss for the first quarter of the year.

Revenue dropped nearly 90% in Q2 compared to Q2 2019. Air Canada had sales of just $527 million in the past three months. A year ago, revenue came in at $4.74 billion in Q2. The massive plunge in seat sales resulted in a loss of $6.44 per share.

The company made $1.26 per share in Q2 2019.

Analysts knew the results would be ugly, but the loss is about 75% worse than the market expected. Pundits figured the Q2 loss would come in around $1 billion.

Air Canada moved quickly to mitigate the damages. The company permanently grounded more than 30% of its planes and reduced capacity across its network by more than 90%. Air Canada also reduced its staff count by about half and raised liquidity by $5.5 billion in the quarter.

The cost-cutting efforts helped Air Canada remove $1.3 billion in expenses.

Despite the efforts to reduce costs, the company really took a beating. The lockdowns, border restrictions, and quarantine requirements put in place by Canada and other countries resulted in Air Canada only carrying 4% of the passenger traffic it saw during Q2 2019.

Outlook

Rising coronavirus cases in the United States, Europe, South America, and Asia make it difficult to predict when Canada will ease some of the travel restrictions. In addition, governments that opened their countries to visitors could be forced to put tighter restrictions back in place.

Air Canada decided to start selling the middle seats on its planes beginning in July 2020. The move could have a negative impact on travel demand by Canadians who want to fly within the country but might be nervous about social distancing.

In recent weeks, a number of reports from provincial health authorities indicate people with COVID-19 are still getting on planes. Lists of flights that carried the travellers and the seats that might have been exposed are made available to the public.

Business travel might also remain damaged.

Even when vaccines become broadly available, the lucrative business seats that drive a large chunk of airline profits could remain empty. Companies are using video platforms to conduct meetings during the pandemic. The success of video conferencing activity in the past four months could mean the practice will remain in place. Travel costs for flights and hotels can be expensive, so businesses might decide to re-evaluate travel needs going forward.

Should you buy Air Canada today?

Air Canada traded for more than $50 per share in February. At the time of writing, the stock is near $15. This might appear cheap, but investors should be careful trying to time a bottom.

With access to more than $9 billion, the company has the liquidity to ride out an extended slump, but there is so much uncertainty regarding the pandemic that it is tough to predict when a meaningful recovery in air travel will take place.

In the event we see renewed lockdowns and extended travel restrictions, the stock could retest the March 2020 bottom. As such, I would search for other options today that appear oversold and at least offer decent dividends to reward you while the economy works through the downturn.

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