Why Investors Are Selling Air Canada Stock (TSX:AC) Today

Description

Well, **Air Canada** (TSX:AC) stock is still bearing the full brunt of the coronavirus pandemic. It is a company struggling to survive in an industry in shambles. Today, Air Canada's earnings show that this pressure is not letting up anytime soon.

Some investors have been hoping for a quick rebound of Air Canada stock. But it is misguided to compare Air Canada to where it was before the crisis hit. Because everything has changed. Investors are increasingly losing their optimism in the stock as problems continue to mount.

Air Canada expects a recovery to take at least three years

Air Canada earnings in the second quarter have confirmed what most of us feared. Even a recovery does not mean a return to 2019 levels. The aviation industry will be smaller, with less airliners and less revenue to go around. Demand may very likely remain subdued for quite some time.

Increased fear and decreased disposable income will take their toll. Economies have been shattered and disposable incomes have tanked.

Air Canada is permanently removing 79 aircraft from its fleet. Today, government restrictions in Canada remain high. Travel restrictions and barriers remain. Quarantine rules and travel advisories have demolished the airline industry. In the second quarter, revenue fell 95% as fleet capacity was reduced by over 90%.

There is no easy way out of this. It will take time and effort. For its part, Air Canada is doing some good work. They are doing the only things they can right now. Rightsizing the fleet and labour, and cutting costs everywhere possible. Fixed costs have been reduced by 25%.

The airliner has succeeded in reducing its cash burn to $19 million a day in the second quarter. In the third quarter, expect this to fall further to $15 million to $17 million a day. These numbers are obviously shockingly high so it's hard to find anything positive in there. But we can say that at least Air Canada is reducing this cash burn number rapidly.

Air Canada has $9.1 billion in liquidity but is this enough?

We can't deny that Air Canada has a balance sheet that can withstand a lot. With $9.1 billion in liquidity, Air Canada has bought itself some time. In the second quarter, the company raised money through new equity, debt, and aircraft financings. The market has responded very well to these financing measures.

Airline bookings have begun to show glimmers of hope. Domestic bookings have shown an uptick as the domestic market has begun to slowly open up. The road ahead will be in small steps, at least for now. In anticipation of a recovery of any degree, Air Canada is pulling out all stops.

Revenue growth is most important now while most historic metrics don't matter as much. Optimizing revenue is the goal now, in order to mitigate cash burn.

Foolish bottom line

Air Canada is a well-managed company that has been brought down by these unprecedented times. It's a very difficult thing to watch this company struggle through no fault of its own. But given this, at least we know that Air Canada is making good decisions in a bad environment. Investors are selling today as the risk in Air Canada stock is too high.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

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

Category

1. Coronavirus
2. Investing

Date
2025/08/29
Date Created
2020/07/31
Author
karenjennifer