



Air Canada (TSX:AC) Investors Just Got Some Terrible News

Description

After an eight-year stretch of rising *50 times* in value, **Air Canada** ([TSX:AC](#)) stock is down 67% year-to-date.

In the early days of the pandemic, many investors thought it was a great chance to buy low. Thus far, most of them haven't turned a profit. Rising case loads around the world have kept a tight lid on air traffic.

These days, there's no end in sight. To make matters worse, Air Canada was just hit with some terrible news.

Things aren't looking good

Air Canada in particular has been hurt by fewer international flights. The Canada-U.S. border was shuttered in March, with the closure extended several times since then.

If this airline stock is to recover, U.S. travel needs to be reinstated. That's not looking likely.

A recent [poll](#) shows that more than 80% of Canadians prefer the border to remain closed through the end of 2020. Last week, we received more troubling news, as COVID-19 exposures were detected on *two* Air Canada flights through Vancouver.

"The two new exposures bring the total number of flights through the Vancouver airport with reported exposures since June to 33," reports *Global News*. Canadian airports are rolling out additional COVID-19 protection measures to mitigate the ongoing risk.

All of these data points strongly suggest that Canada's airline industry won't return to normal anytime soon. That's concerning given Air Canada posted a \$1 billion loss last quarter. It may still be hemorrhaging more than \$10 million *every day*.

The clock is ticking for every airline stock. The recent COVID-19 exposures on Air Canada flights won't

help.

Air Canada's future

When will the current crisis end? CEO Calin Rovinescu has some thoughts.

"Realistically, we expect it to take at least three years for Air Canada to get back to 2019 levels of revenue and capacity," he concludes. "You know that some of the manufacturers have come out and an estimated three to five years. **Boeing** and **Airbus**, I think both have estimates in that range."

So we won't return to baseline until 2023 or later. Doing the math, Air Canada doesn't have that much time. In fact, the entire industry may not survive that long, unless they raise substantial amounts of capital. But even if they gain access to funding, the results for long-term shareholders could still be negative.

"The sad reality is that unless airlines raise new capital, they will go bankrupt," [writes](#) Vitaliy Katsenelson, chief investment officer at Investment Management Associates. "This capital, though it might save them, will reduce the value of their businesses. Equity issuances would permanently dilute shareholders, as future earnings will be shared with a much-increased shareholder base."

This is simply not an industry that deserves your money right now. The situation is dire and will remain so for years to come.

A simple cash flow analysis proves that operators like Air Canada will need to raise *billions* to survive. They may be unable to do so, meaning that shareholders would lose everything. At best, all the potential gains will be diluted through massive share and debt issuances.

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