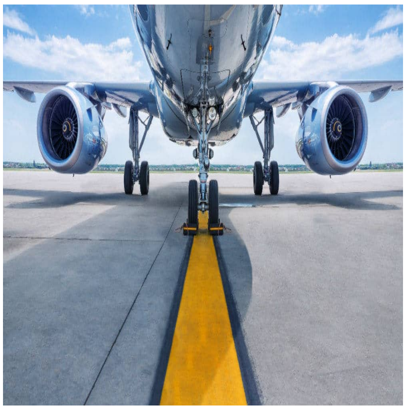

Here’s What to Do With Air Canada (TSX:AC) Stock

Description

Shares of the beleaguered airline company **Air Canada** (TSX:AC) are down about 69% year to date. The government-imposed travel restrictions amid COVID-19 pandemic weighed heavily on its operations and, in turn, its stock.

The massive decline in value must have caught investors’ eye, especially those who like to go against the wind for high rewards. However, if you think Air Canada is one of the top contrarian stocks, you could be in for a rude shock. So, before you jump to a conclusion, let’s take a close look at Air Canada’s challenges to understand the pace at which it could recover.

Cash burn remains elevated

Air Canada expects a net cash burn of $1.35 billion to $1.60 billion in Q3, which translates into $15 million to $17 million per day, on average. Though the figure compares favourably to the net cash burn of $1.72 billion, or approximately $19 million per day in Q2, it remains relatively high for a company that is struggling to generate cash.

Further, the company’s projection assumes the opening of some of the international borders and improvement in passenger volumes, which may not be the case given the rising coronavirus infections.

For those who don’t know, net cash burn implies the amount of cash needed to maintain operations, pay regular debts, and support capital expenditures for a given period. However, with a significant drop in revenues and demand, higher cash burn could prove detrimental.

Take Q2 for example. With a net cash burn of $1.7 billion and an 89% decline in revenues, Air Canada reported an operating loss of $1.6 billion. While operating loss could contract a bit in Q3 on lower cash burn projection and a slight improvement in revenues, continued weak demand and international travel restrictions could lead to higher losses.

Uncertainty overhang

I admit that Air Canada's problems are transitory and are likely to abate as travel restrictions are eased, and international borders are opened. However, the pace of the recovery is highly uncertain. Air Canada itself said that it could take several years for the industry to reach the pre-pandemic levels, implying that the road ahead is tough.

The resumption of domestic flights did bring some respite. However, the demand for air travel remains subdued with the pandemic in the background. I expect continued challenges for Air Canada as a steady increase in COVID-19 cases is likely to discourage passengers from traveling through air.

While domestic volumes could improve a bit in Q3, getting international traffic is likely to remain a challenge. Health warnings, border closures, travel restrictions, and low passenger demand is expected to hurt its international traffic in the near term.

Bottom line

With an uncertain operating environment and negative passenger sentiments, Air Canada's problems are not likely to end anytime soon. Besides, its losses could continue to mount on lower revenues and higher net cash burn.

If you are an investor with an appetite for high risk and patience to sit tight amid volatility, you could buy Air Canada stock on the dip. However, investors who want steady growth and income should avoid Air Canada stock currently, as there are better investment options.

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
6. Yahoo CA

Category

1. Coronavirus
2. Investing

Date
2025/08/28
Date Created
2020/08/04
Author
snahata