Air Canada (TSX:AC) Stock: Can Air Canada Survive the Pandemic?

Description

The pandemic market crash hammered most companies in recent months, but **Air Canada** (TSX:AC) and other airline stocks really took a beating.

Air Canada stock price crashes

Air Canada traded above $50 per share earlier this year. The milestone seemed set to expand, and analysts finally started warming up to the company after years of scepticism on the airline's prospects.

Why?

Air Canada has a history of destroying investor wealth. The airline went into bankruptcy protection in 2003 as a result of the SARS outbreak. A restructuring allowed it to exit bankruptcy after difficult negotiations with staff and creditors.

The financial crisis nearly wiped out investors again in 2009. Air Canada traded near $20 in 2017. By early 2009, the stock traded below $1, and the situation remained uncertain through the middle of 2013. Even then, the stock sat just above the $2 mark.

The past seven years, however, saw the company's revenue and profits soar. Airlines realized they could make a lot of extra money by charging for perks they historically provided for free. In addition, the drop in oil prices off the 2014 highs bolstered profits as fuel costs plunged.

Air Canada's stock surge from below $1 to above $50 made it one of Canada's best-performing stocks over the past seven years.

Pandemic outlook

The arrival of the COVID-19 pandemic rapidly changed the outlook for the company and its investors. As government travel restrictions increased across the globe, the prospects for Air Canada and its peers became increasingly worrisome.

The stock plunged from $45 on February 20 to $12 a month later. Since then, the share price traded as high as $23 in early June. At the time of writing, Air Canada trades close to $17.

COVID-19 continues to spread, and countries that quickly brought the virus under control are now experiencing a second wave, as they attempt to reopen their economies. South of the border, the United States continues to see cases climb.

The American market is important for Air Canada, and it is unclear when the Canadian government will allow visitors from the U.S., let alone other countries.

Can Air Canada survive?

Air Canada continues to press the government to ease restrictions. The company cut roughly 20,000 jobs in June and reported a Q2 2020 operating loss of $1.56 billion.

Passenger numbers fell 96% in the three months ended June 30 compared to last year. Total revenue dropped 89%, with a gain in cargo revenue being the only bright spot.

Cost-cutting efforts continue. Air Canada is now a much smaller business, and it will be interesting to see when the airline can halt the cash burn.

To their credit, management took advantage of opportunities in the market in recent months to raise substantial capital. Air Canada finished Q2 with more than $9 billion in liquidity, so it won't run out of money in the near term.

However, there remains significant uncertainty as to whether restrictions will ease in a timely manner.

Travelers with COVID-19 continue to board flights. Some are Canadians returning from trips to other countries, and others are moving between provinces.

Each time a provincial public health agency sends out a warning about possible exposure on recent flights, the airlines risk an extended setback in seat bookings.

Should you buy Air Canada stock?

Air Canada won't disappear, but history suggests investors should be cautious right now. At this point, the downside risks probably outweigh the upside potential over the near term.

Contrarian investors might be tempted to buy at this level, but I would search for other cheap stocks that at least offer a decent dividend while you wait for the recovery.

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