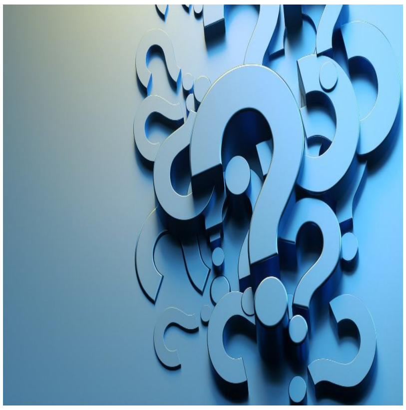

Will Air Canada (TSX:AC) Stock Touch $20 by the End of 2020?

Description

While most sectors are showing signs of recovery amid the COVID-19 pandemic, the airline stocks understandably are still trading significantly below their 52-week highs. The international travel and tourism industry has come to a standstill, which means the recovery for **Air Canada** (TSX:AC) and peers will be delayed, driven by rising unemployment rates, a global recession, and the fear of the dreaded virus.

Air Canada stock is trading 68% below its record high

Air Canada was one of the top-performing stocks on the **TSX** in the last decade. It returned a staggering 3,500% between December 2009 and December 2019. The stock was trading at a record high of $52.71 in early 2020 before the COVID-19 pandemic sent it spiraling downwards to its current price of $16.97.

Air Canada recently announced its results for the second quarter of 2020. Its operating revenue fell by 88.8% year over year to $527 million in Q2, while the operating loss stood at $1.55 billion. In comparison, Canada's flagship air carrier reported sales of $4.73 billion and an operating income of $440 million in the prior-year quarter.

Its net income fell from $343 million to a net loss of $1.75 billion in the same period. The decline in total passengers carried fell 96% due to government-imposed travel restrictions. This decline was marginally offset by a 52% increase in cargo sales that stood at $269 million.

Is debt a concern?

Air Canada has looked to improve its liquidity position, as it continues to burn millions of dollars every quarter. The airline industry is a capital-intensive sector. The company said, "Since mid-March, we have raised $5.5 billion in new equity, debt and aircraft financings in the capital markets, providing us with over $9 billion in liquidity as of June 30th to help weather the COVID-19 crisis."

However, this has also meant that the company's net debt has increased to $4.56 billion in Q2, up from $3.27 billion in the prior-year period. Net debt is the company's total debt minus its cash and cash equivalents. This indicates that Air Canada's net debt is 90% its market cap.

Further, the company's interest expense in Q2 was $149 million compared to $130 million in the prior-year period. In the June quarter, AC's interest expense accounted for close to 30% of sales.

If air traffic continues to remain subdued, investors can expect interest expenses to rise in the upcoming quarters, as the company will raise additional debt to maintain liquidity.

The Foolish takeaway

Air Canada has reduced spending to preserve cash, and this includes a significant reduction in the workforce. It aims to achieve a $1.3 billion reduction in fixed costs and capital investments this year. Air Canada has permanently retired 79 aircraft that account for 30% of its combined mainline and Air Canada Rouge fleet.

However, Air Canada's management expects air traffic to normalize to pre-COVID levels by 2023. While it may be tempting to buy stocks on the dip, the bearish outlook for Air Canada will last longer than expected given the uncertainty amid the pandemic.

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