



## Is Air Canada Stock a Top Post-Pandemic Recovery Play?

### Description

With the easing of lockdown measures and the race to bring the vaccine to the market quickly, investors have their eyes set on the stocks that could emerge as a top post-pandemic recovery play. While the carnage in the airline sector provides a big opportunity for investors to double or even triple their investments in three to four years, not all airline companies are likely to emerge from the pandemic stronger.

Investors should note that the grounding of flights, deep capacity reductions, cash burn, and high debt indicates that the airline companies are probably at their worst financial shape. Metrics like revenue, EBITDA, and margins therefore won't apply to pick the right stock.

However, if you look at the past performance, **Air Canada** ([TSX:AC](#)) has a proven record of bouncing back from the lows. Besides, Air Canada's strong liquidity and market-leading competitive positioning indicate that it has a better chance of survival than rivals like WestJet Airlines.

### Green shoots of recovery

Even though Air Canada stock looks a better buy than its rivals, the company is dealing with lower passenger volumes with the pandemic still in the background. In the most recent quarter, the company reported a massive drop of 96% in the [total number of passengers carried](#). Meanwhile, Air Canada lowered its capacity by 92%, resulting in a decline of 89% in its top line.

Amid scarcity of revenues and continued cash burn, Air Canada slipped into losses. The company announced an operating loss of \$1.6 billion in 2Q, while net loss stood at \$1.8 billion.

While the numbers look pretty demoralizing, investors should note that most of this decline came due to the mandatory travel restrictions. Besides, it also suggests that the worst is probably over for Air Canada.

As the lockdown measures are eased and domestic operations resume, Air Canada's financials are likely to show sequential improvement. Meanwhile, Air Canada's plan to operate up to 100 all-cargo

flights per week in 3Q with increased capacity should further add to the top line.

Air Canada expects a capacity reduction of 80% in 3Q, which is better than 2Q as passenger demand is expected to improve gradually. The company's operating expenses (excluding D&A and special items) fell by \$2.5 billion, or 64% year over year in 2Q. Meanwhile, net cash burn is also likely to decelerate. The company also announced massive cost-reduction measures for the preservation of cash to remain afloat amid challenges.

## Bottom line

While Air Canada is in better competitive positioning in the Canadian airline sector to benefit from the improvement in the passenger demand, it's hard to tell at what pace the recovery might come, especially with the continued increase in the COVID-19 cases.

Also, with international borders still closed and uncertainty over the business and leisure travels, the recovery is likely to take time. Investors are expected to show patience with Air Canada stock and those with a long-term outlook should only buy its shares at the current levels (down about 64% year to date) to [maximize their gains](#) from the post-pandemic recovery.

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