



Why Air Canada (TSX:AC) Stock May Underperform in the Near Term

Description

Air Canada ([TSX:AC](#)) was the world's most promising airline stock at the start of the year. The pandemic then hit, and the stock dropped from \$51 to \$12 in March before recovering to trade at \$17.6 currently. There are a lot of analysts who consider Air Canada to be a very good bet. After all, it is the largest airline in Canada, and any improvement in air travel numbers will positively impact the stock.

However, I am not too enthused about the potential of this stock, at least in the near term. Air Canada stock is very volatile right now, and any news regarding the virus, pandemic, or a vaccine affects its price. Towards the end of May and start of June, as news of a vaccine began to do the rounds, Air Canada stock rose to over \$20 but just as soon dropped back to \$14, as recession fears continue to loom.

Bleak outlook for international travel

Around 30% of Air Canada's revenue comes from international travel. On July 25, the International Air Transport Association (IATA) [released an updated global passenger forecast](#) showing that the recovery in traffic has been slower than had been expected. According to IATA, global passenger traffic is unlikely to return to pre-pandemic levels until 2023, which is a year later than previously projected.

Fitch Ratings also downgraded Air Canada's Long-Term Issuer Default Rating (IDR) to BB- from BB due to a bearish international outlook. Its press release said, "Fitch has revised its forecast since our previous review to include a steeper downturn in 2020 and slower recovery in 2021. Fitch believes that Air Canada carries a greater risk of a slower recovery than some carriers due to its heavy reliance on international traffic."

It added, "In 2019 30% of its passenger revenue came from domestic traffic, 48% from U.S.transborder and trans-Atlantic travel, and the remainder from the Pacific and other non-domestic traffic.Reluctance to travel internationally and the possibility of prolonged travel restrictions may delay AirCanada's recovery compared to more domestically focused carriers."

What next for Air Canada stock?

Air Canada [sales were down](#) 88.8% in Q2 at \$527 million, and it reported an operating loss of \$1.55 billion. September 2020 is when government assistance programs in North America, Europe, and Asia come to a halt.

Further, consumer confidence is not high on account of a weak job market and high unemployment rates. Leisure travel will take a long time to return to pre-pandemic levels. The travel and tourism industry is generally the last to recover from an economic slowdown.

It's a similar scenario for corporate travel as well. As companies have switched over to video-conferencing instead of physically traveling for work, the number of corporate travelers will also reduce.

In the midst of all this, if a second wave of the pandemic occurs, the recovery will take even longer. Stay away from Air Canada until there is a significant trend away from what we are seeing right now.

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