



Air Canada (TSX:AC) Stock: This Is Terrible News!

Description

Air Canada ([TSX:AC](#)) stock is a roller coaster. From 2012 to 2019, shares rose 50 times in value. In 2020, they're *lower* by nearly 70%.

Investors are split into two camps. One thinks shares are priced at a [bargain](#), a rare opportunity for such a high-growth stock. The other thinks the COVID-19 crisis will eventually sink most airlines, including Air Canada.

Is this a chance to make a ton of money, or should you stay far away? A recent news item sheds light on the entire situation.

This is what hurts

The COVID-19 crisis is obviously the biggest challenge for airline stocks. But according to Air Canada, it faces particularly severe conditions.

“With Canada’s federal and interprovincial restrictions — which have been amongst the most severe in the world — we carried less than 4% of the customers carried during last year’s second quarter,” noted CEO Calin Rovinescu. “Revenue passengers carried declined more than 96% compared to a year ago.”

Air Canada executives know industry-wide conditions are bad, but they blame Canada’s travel restrictions for their terrible performances.

“At present, there exists no fewer than four overlapping barriers to travel and economic recovery, imposed by governments in Canada,” Rovinescu said. “Together, these measures constitute one of the most severe aviation lockdown regimes in the world.”

Last quarter, the company lost \$1.7 billion. The quarter before that, it lost \$1.1 billion. No company can withstand losses into perpetuity. The clock is ticking.

What will happen to Air Canada stock?

Company executives blame domestic travel restrictions for its multi-billion-dollar losses. Let's assume that's true for now. When should we expect these restrictions to be eased? Some recent news gives us a good idea.

"Canada at 'crossroads' as COVID-19 cases surge," *Reuters* [reported](#) last week. "If people do not take stringent precautions, they could balloon to exceed levels seen during the first wave of the pandemic."

This is terrible news for Air Canada. Executives stressed that travel restrictions were its biggest impediment to growth, but with cases on the rise again, the odds of a return to normal are falling daily.

In some ways, this should have been expected. Air Canada originally stated that it would take two or three years for a recovery to take place. Plane manufacturers are guiding for a five-year recovery. One carrier expects demand to remain "permanently" smaller.

The airline industry isn't at a crossroads. This is a point of reckoning. There's simply way too much industry supply compared to current demand. Even if demand picks up five-fold, the supply/demand dynamics would be terrible for profits.

Rising COVID-19 cases in Canada, and indeed around the world, make it unlikely that air travel will return to the mainstream this year. It's also unlikely that conditions will normalize in 2021. Air Canada has less than two years of financial runway left, putting it in a very tight position.

At the start of 2020, Warren Buffett owned shares of four different airlines. Today, he owns *none*. He thinks uncertainty is way too high to stay invested. It would be wise to follow Buffett on this one.

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