Air Canada (TSX:AC) Stock Is Too Risky

Description

Air Canada (TSX:AC) was once a perfect example of a booming business. The airline had one of the best returns on the market over the past decade. In fact, just in the past five years, Air Canada's stock has shot up 270%. That incredible growth story, which included a slew of record-breaking quarters came to a sudden end with the COVID-19 pandemic. The pandemic has left investors wondering whether Air Canada's stock is too risky an investment.

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Risky stock, lucrative buy?

Patience is a virtue. Good things come to those who wait. There are dozens of phrases that can convey that same message to Air Canada investors, but let's start with some facts.

Canada's ongoing travel restrictions, which are necessary due to the pandemic, are some of the strictest in the world. This bodes well for stopping the spread of the virus, but not so much for Air Canada, which is reliant on travel.

Those (necessary) restrictions were a key point in Air Canada's passenger numbers reported in the most recent quarter. In that quarter, the airline moved just 4% of the passengers it did when compared with the same quarter last year. That 96% drop in passenger revenue was instrumental in the company reporting a loss of $1.7 billion.

Adding to those woes is the fact that the airline lost a further $1.1 billion in the prior quarter, and a recovery could still be *several years out* (more on that in a moment). To put it another way, there could be significantly more pain for Air Canada investors before we see an improvement. This factor alone could render the stock too risky an investment for many.

Is there an opportunity for growth?

Let's take a moment to again state the facts. The main blocker from Air Canada resuming full-scale operations is the COVID-19 pandemic. Work on a vaccine for the virus is underway, but is unlikely to be ready and out of trials until well into next year at the earliest. Following that, we're still left looking for answers on how we can manufacture, distribute, and inoculate *everyone* (or at least to the point of herd immunity).

Finally, after all of that transpires, we would need governments worldwide to open up their borders for travel to resume. Only then can Air Canada resume some form of revenue generation from its much-needed international segment.

Even the most conservative estimates peg this timeline as anywhere from two years to more than double that time. Until that is resolved, Air Canada is left with expensive aircraft and crew working at limited capacity. Again, that might make the stock too risky an investment.

Should you buy, hold or sell?

If it weren't for the COVID-19 pandemic, Air Canada would arguably still be posting growing numbers and profits. In a similar vein, once the pandemic is over, Air Canada will resume larger-scale flight operations to bring in much-needed revenue.

Unfortunately, a second or even third wave of COVID-19 seems more likely to occur before we see a full recovery. This doesn't bode well for existing investors hoping for a quick turnaround. And while Air Canada does have liquidity it can fall back on, the company is burning through cash. This could turn problematic as debt payments come due.

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In summary, the stock is too risky at the moment. Until the market improves, it might be better for investors to look elsewhere for growth.

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