Air Canada (TSX:AC) Stock: The Painful Part Isn't Over

## Description

**Air Canada** (TSX:AC) was one of the worst-hit stocks in the COVID-19 market crash, falling more than 70% from top to bottom. Thanks to the mass collapse of air travel, the company was forced to cancel about 90% of its routes. As a result, its revenue declined by 89% year over year.



Still, some investors remain hopeful. Since reaching a low of $12 in March, Air Canada shares have been on the rebound. While they're way down for the whole year, they're up 30% from their March low. While that might look like a stock that's surging back with a vengeance, looks can be deceiving. As you're about to see, Air Canada's own CEO believes that the worst is far from over. In fact, company executives think it will be at least three years until revenue levels recover.

If these predictions come to pass, then investors will have to brace for more pain to come. In this article, I'll be exploring a few reasons why that's the case.

# CEO releases ominous statement

In a recent statement, Air Canada CEO Calin Rovinescu told investors:

> *"We're now living through the darkest period ever in the history of commercial aviation, significantly worse than the aftermath of 9/11, SARS, or the 2008 global financial crisis… There is little doubt that we are not yet out of the trough."*

Those are ominous sounding words. And Rovinescu isn't the only airline executive to make such statements. Other major airlines like **Delta** have come out saying that they expect two to three years for travel to fully recover from the COVID-19 lockdowns. The reason is that even with lockdowns technically being lifted, individual travelers remain wary of flying, resulting in fewer people booking flights.

Also, mass unemployment tends to reduce demand for travel, as we saw in the great recession of2008 and 2009. And despite significant job gains, unemployment is still historically high.

## Q3 likely to be bad

With Air Canada's stock rising 30% since its March low, it appears that investors are betting on a recovery. Unfortunately, it's not looking like that's going to happen anytime soon.

Recently, the CBC reported that Air Canada was still cutting routes as of early September. Fewer routes means less revenue. And Airlines can't operate for long with lower than anticipated revenue. A capital-intensive business, air travel requires heavy levels of debt and incurs high fixed costs. In Q3 alone, Air Canada's interest expenses were 28% of revenue. That's not sustainable. Thus, it looks like the third quarter is going to be another loser for this company.

## Foolish takeaway

When you get a stock rising 30% in a few short months, you can find yourself tempted to buy it. Unfortunately, in Air Canada's case, that would be an extraordinarily risky proposition. Last week, we saw the stock's momentum pop. It seems quite likely that another selloff will come after the company releases its Q3 earnings. For investors still holding AC, there's more pain to come.



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