



Why Air Canada (TSX:AC) Stock Fell 11% in the Last Month

Description

Shares of **Air Canada** ([TSX:AC](#)) have been volatile in 2020, and for good reason. While the COVID-19 pandemic has decimated several industries, few have been hit as hard as the airline space. Air travel came to a standstill as governments grounded domestic flights and shut their borders.

This led to a massive sell-off in airline stocks. Air Canada shares fell from a record high of \$52.71 in February 2020 to a multi-year low of \$9.26 in just over a month. While it has since recovered, the stock is trading at \$15.95 which is 70% below its record high. Further, Air Canada lost close to 11% in the last month. Let's see what impacted the stock more recently.

Air Canada stock fell 8% on September 21

Shares of Air Canada slumped 8% on September 21 after Justin Trudeau's government extended travel restrictions to the end of the month. The International Air Transport Association had requested the Canadian government to ease these restrictions to drive up travel demand.

Airline companies continue to burn millions of dollars in cash every day due to a significant decline in passenger traffic coupled with the capital-intensive nature of their business. Market research company Cirium forecasts that Air Canada and WestJet have cancelled close to 450 flights in the first three weeks of September 2020 as business travel demand has not met expectations.

Air Canada is burning \$17 million in cash every day and is expected to post a massive loss in the upcoming quarters.

Will air traffic rebound?

According to industry experts, it could take over two years for air traffic to reach pre-COVID-19 levels. A sluggish global economy and a recessionary environment will also weigh heavily on demand and delay the recovery.

Air Canada on the other hand, is [trying its best](#) to attract passengers. It has opened COVID-19 testing booths at the Toronto airport and introduced complimentary emergency medical and quarantine insurance for bookings made in Canada between September 17 and October 31.

It has also launched loyalty programs to encourage travelers and introduced an [Infinite Canada Flight Pass](#) for a period of three months that provide customers the flexibility to book, change and cancel domestic air travel tickets without penalties.

However, the threat of COVID-19 looms large, and these initiatives are unlikely to materialize if travel restrictions remain.

What next for Air Canada investors?

In Q2, Air Canada's passenger traffic fell 96% year over year. While the numbers are expected to improve in Q3, the situation for the company and peers remain grim. Air Canada reduced its staff count by 20,000 in June, and this situation will be exacerbated especially if fears of a second COVID-19 wave come true.

Over the long term, there is a good chance that business travel will never be the same again. As meetings were conducted online and deals were closed successfully, business travel habits may well have changed permanently.

For now, Air Canada needs to prioritize reducing cash burn and hope it can break even by the second quarter of 2021.

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