



Air Canada (TSX:AC) Stock: Finally Ready to Explode?

Description

In March, **Air Canada** ([TSX:AC](#)) shares fell 70%, as coronavirus fears rattled the market. Many investors jumped in after the crash, but they've been waiting months without much to show for it.

The wait could be over. In recent weeks, several catalysts have emerged, one of which could turn the entire company around.

If you've been waiting for Air Canada stock to explode in value, pay attention.

This is promising

For airlines, it's all about survival. No carrier is turning a profit right now. That's been true nearly all year. Air Canada, for example, lost nearly \$3 billion over the last six months alone. That's concerning considering its total market cap is just \$4.7 billion.

No company can withstand multi-billion-dollar losses forever. Airlines only have two paths out of this mess: either conditions turn positive quickly or new financing must come available.

For now, it doesn't look like conditions will improve. Airline traffic remains 90% below its pre-pandemic peak. One industry CEO believes demand will be "permanently" lower.

If demand remains low, the only option to survive is for airlines to raise more cash. New financing is no guarantee, that's what makes recent events so encouraging for Air Canada.

In late September, the company announced two long-term refinancing transactions totaling \$1.5 billion in value. These moves removed some overhang risk from multiple short-term financing maturities.

"The debt maturities in 2021 previously disclosed in our Q2 2020 results will be, on a pro forma basis, reduced by approximately \$1.42 billion and are now estimated to total \$1.71 billion, once both aforementioned bridge loans are fully repaid," Air Canada commented.

Last week, the company [added](#) to the new financing through a sale and leaseback agreement involving nine Boeing 737 MAX 8 aircraft, providing roughly \$500 million in proceeds.

The market has long been worried about Air Canada's ability to survive. These recent transactions should take bankruptcy off the table for several quarters to come. That could be exactly what the stock needed to make a comeback.

Will Air Canada stock explode?

When betting on the stock market, it's wise to compare your actions against the best investor of our time: Warren Buffett. His recent [comments](#) on the airline industry are telling.

"The world has changed for the airlines," he said recently, noting that he's unsure if demand will ever reach pre-pandemic highs.

As always, his biggest concern is over-capacity, a factor that prevented him from investing in the space for several decades.

"The airline business has the problem that if the business comes back 70% or 80%, the aircraft don't disappear," he stressed. "You've got too many planes."

Here's the trouble for airlines like Air Canada. Even if you survive, market conditions on the other side will be challenging for years to come. Competitors may go bankrupt, but the planes themselves don't disappear. The new normal simply doesn't need the aircraft supply of 2019.

Too much supply will mean too much competition, reducing prices enough to make profitability a difficult achievement. Some stocks are ready to explode *right now*, but Air Canada isn't one of them.

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rvanzo

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