



Air Canada (TSX:AC) Stock: Will It Dip Below \$10 Soon?

Description

When the COVID-19 pandemic broke out in mid-March, the shares of **Air Canada** ([TSX: AC](#)) tumbled 52.11% to \$12.15. The aviation industry faced its [worst crisis](#) as governments closed borders and ordered travel bans to prevent coronavirus spread.

With the second wave of COVID-19, analysts warn of [another market crash](#). If it happens, a correction of at least 40% will bring Air Canada's stock price to below \$10. The price soared to \$23.39 on June 8, 2020, after news of vaccine clinical trials went viral. At present, the airline stock is trading at \$16.09 per share.

Downgraded forecast

The International Air Transport Association (IATA) forecast months ago that traffic would fall by 63%. However, IATA is downgrading its estimate to a full-year -66% decline compared to 2019. According to IATA Director General and CEO, Alexandre de Juniac, August's traffic performance was disastrous.

Based on its flight data, air passenger services ground to a halt due to new COVID-19 outbreaks in key markets. It was the industry's worst-ever summer season. Furthermore, international demand recovery is virtually non-existent.

In North America, traffic was down 92.4% versus the 94.4% decline in July. Capacity and load factor plunged by 82.6% and 49.9%. With the horrendous stats, IATA sees airlines burning cash by \$300,000 per minute or \$77 billion in cash total in the second half of 2020.

Latest developments

Air Canada added US\$365 million to its coffers in October 2020 after selling nine of its **Boeing 737 MAX 8** aircraft to two leasing companies. Avolon Aerospace bought six, while Jackson Square Aviation got three. Although the aircraft will fly with Air Canada, it's liable for long-term lease payments (\$345 million) to the new aircraft owners.

IATA urged the government of Canada last September to support Air Canada's COVID-19 testing initiatives. It would allow the country to operate domestic and international travel without blanket quarantine measures safely.

Airlines' service revenues to, from and within Canada, could fall by \$22.6 billion compared with 2019. IATA adds that 410,500 Canadian jobs are on the line. Aviation contributes \$39 billion to the country's GDP, directly or indirectly. The air transport sector and arriving tourists deliver 3.2% of Canada's gross domestic product.

Last week, Air Canada confirmed striking a new deal with **Transat AT**. Rather than paying \$720 million for the takeover, the company would pay the tour operator an amended amount of \$190 million. The deal might conclude in early 2021 if regulators in Canada and the European Union gives the go-ahead.

According to Calin Rovinescu, Air Canada's president and CEO, the merger will provide Transat's operations and stakeholders with stability. More so, the deal will position Air Canada and the country's aviation industry to emerge stronger in the post-COVID world.

Hobbled industry

The recent IATA survey shows that two-thirds of travellers would postpone flying until the overall economy or personal financial situation stabilizes. Even if Air Canada implements various measures to ensure passenger safety, demand won't be there. The crisis is more profound than imagined and could hobble the entire travel value chain.

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