



## Warning: Air Canada (TSX:AC) Stock Is About to Crash

### Description

**Air Canada** ([TSX:AC](#)) stock is about the crash. It's simple math.

If you own this stock, pay close attention. If you're thinking about buying, it's likely best to wait for the dip.

Want to know why Air Canada stock is set to drop? Let's find out.

### Know these numbers

Airlines are a difficult bet right now. Usually, the market is betting on what profit margins will be, or what passenger traffic will look like. Today, it's all about one thing: survival.

It should be no surprise to learn that air travel demand is down significantly since the coronavirus pandemic began. Air Canada, for example, is flying 95% *fewer* passengers than it did a year ago. That's terrible news for a high fixed-cost business.

No matter how many passengers an airline flies, they still need to pay for their plane leases, storage, and maintenance. Even if they lay off thousands of employees, they're still stuck with most of their fixed costs. Dramatically lower revenues combined with a stubborn cost base is forcing multi-billion dollar losses across the industry.

Air Canada, for example, lost \$1.7 billion last quarter after posting a \$1.1 billion loss the previous quarter. This quarter, more losses are expected.

No company can lose money forever. The clock is ticking. Several large carriers have already gone bankrupt. Air Canada could be next.

But there's a catch! Many investors think that now is exactly the time to be *buying*. There's blood in the streets, and airline stocks are trading at deep discounts. Could this actually be the perfect contrarian opportunity?

## Buy Air Canada stock?

Thus far, Air Canada has been able to replace its losses with new financing. It's sold billions in stock and new debt. Recently, they raised billions through a clever sale-leaseback scheme.

"Air Canada has announced it completed two US\$1.52 billion longer-term refinancing transactions," [reported](#) *Airways Magazine*. "These will replace the airline's previous short-term facilities."

"This is *huge* news," I [concluded](#) at the time. "If capital markets refused to refinance these loans, the company could go bankrupt within weeks. This is a lifeline that Air Canada needed badly, and the market came through for it."

The market has proven willing to give the company billions in new financing this year, but next year could be a totally different ballgame. According to executives, the airline has just \$9 billion of liquidity left. Remember that it's losing nearly \$3 billion every six months.

This game of survival won't last forever. At best, Air Canada has just 18 months left of operating runway. In reality, it's likely closer to 12 months.

But here's the thing: even if the company does survive, there's no guarantee that current shareholders will benefit. That's because billions more must be raised simply to survive. Compare those figures to its \$4.8 billion market cap and you start to see how damaging dilution will be.

Sure, Air Canada may survive, but current investors will likely split the gains across so many new investors that reasonable profits will evaporate. This is no time to be an airline bull.

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