



Air Canada (TSX:AC) Is on Thin Ice: What Should You Do?

Description

Air Canada ([TSX:AC](#)) is walking on thin ice. On the one side, there are hopes that air travel demand will return. And on the other side, there is piling debt and billions of dollars of losses. At present, AC is able to raise capital from the debt and equity market and its aircraft fleet. But this capital is gradually drying up, as investors are reluctant to put their money in airline losses. The billionaire investor Warren Buffett walked away from the industry in early April.

If the air travel demand doesn't start recovering, AC may not be able to sustain [billions of dollars in losses](#) for long. Amid these difficult times, some figures showed early signs of recovery, at least in the United States.

Airlines see early signs of recovery

For the first time since March 15, the number of air travelers crossed the one million mark on October 18, according to the Transportation Security Administration (TSA) [data](#). Although the one million figure is 60% lower than last year, a 40% capacity is a sign of recovery.

The airline industry does not expect air travel to return to the pre-pandemic level before 2022. Hence, a 40% traveler capacity is way better than just 15-25% traveler capacity in the first nine months. Now, it is unclear how many of these travelers flew AC. I won't be surprised if the airline had the least share, given that Canada has the most stringent international travel restrictions. These restrictions are bleeding cash for the airline.

AC is asking the Justin Trudeau government to ease travel restrictions, or at least ease the 14-day quarantine requirement by adopting a scientific approach.

Why Air Canada's COVID-19 testing won't work

Airlines worldwide argued that more COVID-19 testing should help make the 14-day quarantine more scientific. Instead of putting everyone through the quarantine, testing can help put only those who are

infected.

To build a case, AC opened voluntary testing booths and conducted 13,000 tests of returning passengers on that day, the seventh day, and the 14th day. According to the initial study, testing found only 1% of passengers were infected with the virus. Among that 1%, testing identified 80% cases on the first day and the remaining 20% on the seventh day.

So, if 1,000 passengers traveled, 10 were tested positive. Of these 10, AC identified eight cases on their arrival and two after the seventh day. This data implies that instead of putting all 1,000 passengers under a 14-day quarantine, only those 10 passengers could be quarantined. The data looks impressive, but the problem is the two passengers could become super spreaders.

The coronavirus became a pandemic because of its ability to spread at a rapid pace. The COVID-19 studies have shown that there are a few super spreaders that make the virus deadly. In South Korea, just one infected person attending a gathering caused an outbreak of thousands of cases. Hence, the only solution to flatten the curve is to put all 1,000 passengers in the 14-day quarantine until a vaccine is readily available.

While AC may insist on using all safety measures for the sake of its business, the government has to think from a macro perspective. It can't afford another COVID-19 outbreak. Hence, the government has been extending the international travel restrictions from March 21 to October 31. It might extend it once again.

Air Canada to get a new CEO

Amid this chaos, AC has announced a change in the management effective February 15, 22. Calin Rovinescu will retire after serving almost 12 years as the CEO, and CFO Michael Rousseau will take his place. Rousseau joined AC in the 2009 crisis and has worked alongside Rovinescu to make AC profitable.

As a CFO, he has successfully raised AC's liquidity to withstand crisis and even refinanced \$1.5 billion of its short-term debt. While he has aced the financial aspect of AC, it remains to be seen if he can bring back AC to its glory.

Foolish takeaway

AC stock won't show sustainable growth for the next two years. Instead of locking your money in a loss-making stock, put it in a growth stock.

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