



## Air Canada Stock Investors Will Love This News on COVID-19 Regulations

### Description

Encouraging news pieces are coming out for loyal investors in a beaten-down **Air Canada** ([TSX:AC](#)) stock. The airline stock closed 7% higher on Thursday as the market welcomed an encouraging news piece from the government of Canada. AC's stock price is [edging higher again today on hopes of a bailout](#).

The federal government and the Province of Alberta announced a joint pilot project to test international travelers arriving in Alberta for COVID-19. Starting on November 2, travellers arriving into the country through the Calgary International Airport and a land border could volunteer to get tested for the coronavirus. If they test negative, they could be released from quarantine. A few more requirements still need to be observed, including a second negative test on the sixth day.

### What impact will rapid testing have on AC stock?

Currently, Canada requires every international traveller arriving in the country to quarantine for 14 days to reduce the spread of the coronavirus. This remains a huge impediment to the resurgence of international travel.

Air Canada and **Onex Corp**-owned WestJet Airlines have been advocating for science-based approaches to help ease quarantine requirements. They stand to directly benefit if travellers can return to the skies again.

Air Canada's CEO was evidently bullish on the news. "We know Canadians expect the rich data from these test results to lead to a loosening of the federal government's quarantine requirements immediately, which will allow families to reunite and the economy to resume," reads a direct quote from the company's news release on Thursday.

The loosening of mandatory quarantine requirements could mean a stronger resurgence in international travel bookings. On its own, the development enhances survival chances for the country's airlines and could help lift Air Canada's stock price a little bit in the near term.

That said, significant challenges still remain for the industry. The duration of the mandatory quarantine period could be reduced by more than half to *just* six days. That is if the pilot program is then deployed nationwide. This will be an improvement, but a six-day quarantine could remain a significant restriction to international travel nonetheless.

## Less pain ahead for the airline?

The world is battling a second wave of the coronavirus pandemic. News of the approval of the first COVID-19 treatment in the U.S. on Thursday pulled North American airline stocks higher. But there's still significant pain to be endured over the next few years for the industry.

However, vaccines are still under clinical trials. It will take time for a significant portion of the world population to receive a dose and become immune to the deadly virus. Until then, air travel will remain significantly subdued for probably the next two or more years.

Analysts expect AC's total revenue to rise sequentially by 113% for the third quarter and to top \$1.8 billion during the fourth quarter of 2020. The ailing firm is expected to report an eye-watering \$4 billion GAAP loss for this year. Strong revenue recovery is expected for 2021. That said, the \$11.2 billion in next year's expected revenue will still be lower than 2011 sales.

Encouragingly though, losses are expected to narrow to \$455 million for 2021. Annual free cash flow is expected to improve from a negative \$3.2 billion for 2020 to a negative \$890 million next year. Quarterly operating cash flow improves sequentially and finally turns positive during the second quarter of next year.

The road to recovery remains long. However, the airline has a surviving chance given its beefed-up cash, cash equivalents, and short-term investments balance of \$8.6 billion exit June this year.

Perhaps breakthroughs in vaccines and treatments will open up the skies faster and lessen the bleeding on Air Canada's business.

## Foolish bottom line

Air Canada's stock remains a speculative recommendation for outsized returns in my book. The latest regulatory environment development brings new hope for a shorter timeline to recovery for AC stock. Further, [a new government bailout](#) could provide a healing touch to the ailing business.

That said, risks to cash flow remain high if the ongoing air travel sector recovery takes longer.

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