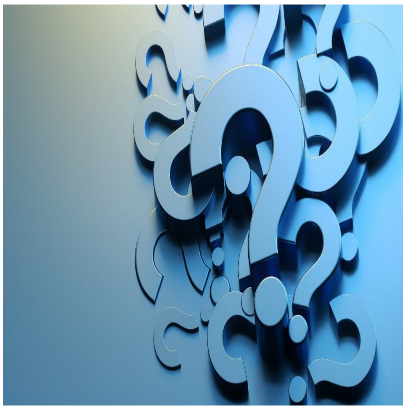

Canada Extends Border Closing: What Will Happen to Air Canada (TSX:AC) Stock?

Description

Air Canada (TSX:AC) stock collapsed when the COVID-19 pandemic began. Shares fell 70% and have yet to recover.

One of its biggest obstacles is travel restrictions. In fact, the company's CEO repeatedly blames government rules for its current failings.

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"For Air Canada, the pandemic and government-imposed lockdowns and travel restrictions the world over have ended a run of 27 consecutive quarters of year-over-year revenue growth," Air Canada CEO Calin Rovinescu said.

"With Canada's federal and interprovincial restrictions — which have been amongst the most severe in the world — we carried less than 4% of the customers carried during last year's second quarter," he added. "At present, there exists no fewer than four overlapping barriers to travel and economic recovery, imposed by governments in Canada."

If travel restrictions are to blame for the stock's poor valuation, recent news should send a shudder through your bones.

Canada extends travel restrictions

In the spring, Canada closed its U.S. land border, only allowing commercial traffic to pass. Cross-border travel plummeted. The government also instituted strict quarantine and testing rules for air travelers.

These restrictions were only meant to last a few months, but time and time again, the new rules were extended. This week, we learned that they'd be extended yet again. This is the *opposite* direction that Air Canada wants to move towards.

"We are extending non-essential travel restrictions with the United States until November 21st, 2020.

Our decisions will continue to be based on the best public health advice available to keep Canadians safe," said Canada's public safety minister.

"The situation in the United States continues to be of concern. So we're going to make sure we're keeping Canadians safe as best as we can," Trudeau added.

Can Air Canada survive?

Nearly every airline in the world is struggling financially. There's no way around the pain. It costs millions of dollars per day to maintain a global fleet of aircraft. Airlines must pay for these expenses *regardless* of whether they fly passengers.

Air Canada notes that passenger traffic is down by 96% versus the year before. As you can imagine, this is racking up huge losses.

Over the last six months, the company lost $2.9 billion. This quarter, analysts expect another billion-dollar loss. On an annual basis, the company is likely generating at least $5 billion in cash burn. That's concerning considering the total market cap for Air Canada is *under* $5 billion.

No business can sustain quarterly losses forever. The only antidote is a turnaround in the market or new financing to plug the hole.

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So far, Air Canada has been able to secure new financing to stay afloat. With travel restrictions being extended yet again, the market may soon reach the end of its rope. Once that happens, the company could go under in a matter of months.

This is simply not the place you want to be invested right now. The bankruptcy risk is abnormally high, and even if conditions do tick up, there's no guarantee of profit. The industry supply and demand balance is way too imbalanced.

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