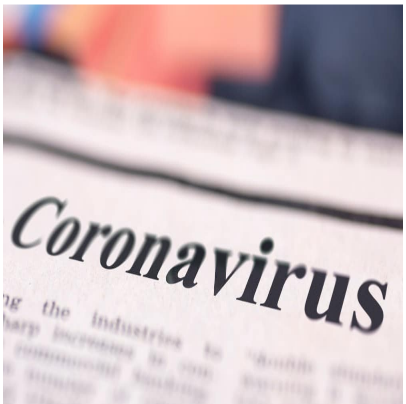

Stock Market Crash 2.0: The Pandemic and Blue-Chip Companies

Description

The stock market has been a mystery this year. It rallied when everyone was expecting the market to crash. On one side, tech stocks jumped to new highs between April and July and then plateaued in August. On the other side, stocks of capital-intensive companies like oil and real estate dipped to record lows. Such contrasting movements changed the structure of the **TSX Composite Index**. The finance- and energy-heavy index got skewed towards tech.

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At one time, news like job cuts, higher debt, and slashing mergers and acquisitions (M&A) bids were considered bearish. But they are now considered bullish. The pandemic has made lower-cost and flexible operations the new normal for blue-chip companies.

Companies are revising down M&A bid prices

The airline industry and all other companies with exposure to this industry drowned into a once-in-a-generation crisis, as the pandemic grounded 95% of the capacity. Airline stocks worldwide have lost more than 70% of their market value. Airlines are downsizing, reducing their aircraft orders, and doing everything possible to preserve cash.

In these difficult times, many analysts believed that ongoing M&A deals would either end or be revalued. Hence, when **Air Canada** (TSX:AC) renegotiated the **Transat A.T.** deal, wherein it cut the bid price by 75% from $720 million to $190 million, Transat shares surged.

Transat had lost 76% of its valuation in the pandemic. The revised price of $5 per share (from $18 per share) represented a 30% premium on the stock's trading price a day before the negotiation. Even Transat shareholders willingly agreed as they were happy that AC didn't cancel the deal.

Similarly, Alstom revised the price for **Bombardier** (TSX:BBD.B) Transportation down by €300 million from €5.8-€6.2 billion to €5.5-€5.9 billion. And this price is subject to further reduction if Bombardier Transportation's net cash falls by the time the deal completes in the first quarter of 2021. Alstom believes the price could go down to as much as €5.3 billion. Bombardier stock has already lost 80% of its value since the pandemic. The revised deal temporarily raised its stock price by 12.8%, but it fell

11% in the next week.

In both cases, revised down prices made investors bullish, as they found a point to exit the battered stocks at a decent price.

Companies are firing more than hiring

The airline world has turned upside down. Investors are happy when companies are making job cuts. Job cuts have become the new normal of the pandemic. Hence, Canada's unemployment rate surged as much as 13.2% in April. Although the unemployment rate has declined to 9% in September, people are losing jobs in airlines and related industries.

In late May, AC stock surged almost 40% in two weeks to $23.4, its highest since the March sell-off, after it announced plans to slash 22,800 jobs, or 60% of its workforce. In early June, Bombardier stock surged 34% after it announced plans to slash 2,500 jobs, or 11% of its workforce.

Joining the two companies mentioned is **Suncor Energy** (TSX:SU)(NYSE:SU). Its stock surged 10.5% after it announced plans to slash 10-15% of its workforce, which equates to 1,300-1,900 jobs. Suncor is an integrated oil company, and a dip in jet fuel demand sent oil prices crashing. That is where Suncor took the hit.

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The three companies are burning cash, and a revenue recovery is nowhere in sight. They are left with no other alternative but to reduce losses. The job cuts assure investors that the companies are cutting costs to slow the losses.

Management changes

In times like these, AC CEO Calin Rovinescu postponed his retirement to February 15, 2021. Suncor Energy got a new CEO, Mark Little, just last year. And now, Bombardier has let go of its Aviation head David Coleal, as the company is downsizing to a pure-play business jet provider.

Investors might not like these management changes amid the pandemic uncertainty.

Foolish takeaway

Oil and airline stocks will take at least three years to recover, as they suffer from excess supply and a slow recovery in demand, which will lead to multi-year losses and large debts. Until these stocks show signs of profits, any growth won't be sustainable. Don't fall into this value trap.

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