
# Air Canada (TSX:AC) Shareholders: SELL While You Still Can!

## Description

**Air Canada** (TSX:AC) stock is on the decline again.



After several months of surprisingly decent returns, AC dipped below $15, closing at $14.73 on Friday. The declines were part of a broader market selloff that affected most industries. With a second wave of COVID-19 taking shape and the U.S. election looming, many risk factors are beginning to rear their ugly heads.

With that said, overall market volatility doesn't fully explain Air Canada's losses. Over the past three months, the S&P 500 is down only 1.75%, while AC is down 6.4%. Clearly, investors think that AC is riskier than stocks as a whole. The question is, *why?*

## Second wave coming

One major risk factor Air Canada is currently facing is a second wave of COVID-19.

The pandemic has not been kind to many industries, but it has treated airlines worse than most. In the second quarter, Air Canada saw its revenue decline 89% and posted a $1.7 billion loss. Similar results were seen by other airlines.

The pandemic was squarely to blame for these results. First, many countries brought in travel bans, or at least mandatory self-isolation orders for travelers. That killed demand for travel, leading to Air Canada and other airlines cutting routes. Second, the pandemic caused a recession, which put many out of work. That worsened the loss of demand for travel, accelerating the revenue bleed.

Over the summer, the pandemic began to pull back, which some hoped would bring the airline industry back to life. Unfortunately, a second wave is now in full swing, with cases rising in both North America and Europe. Just recently, the E.U. took Canada off its safe travel list, while France entered a second lockdown. Neither of these developments are good for Air Canada. To get back to 2019 revenue levels, AC will need international flights operating. It can't get back to normal with just limited domestic travel. Unfortunately, international travel is going to be weak for the foreseeable future. So, Air Canada has several more losing quarters ahead.

## Sustained financial damage

Even without a second wave of COVID-19, Air Canada has sustained enough financial damage to give pause. So far this year, it has taken $2.75 billion in losses, seen its revenue decline 89% and cut about 90% of its routes. It also raised $1.6 billion in debt and equity, diluting share value and leveraging up its balance sheet. These were already problems. Throw a second wave on top of all that, and you've got a real crisis on your hands.

## Bankruptcy next?

At this point, it's pretty obvious that Air Canada is in financial trouble. The question is whether it will have to enter bankruptcy protection. That actually happened to the company once before. In 2003, the company pursued a scorched-earth policy to ward off an **ONEX** takeover, eventually resulting in bankruptcy.

Later, AC emerged in better shape, delivering returns well in excess of 1,000% over a 10-year period. Today, it's starting to look like the company will enter bankruptcy once more — or else have to take a bailout. This time, however, the bankruptcy would not be strategic, but rather an unintended consequence of a real crisis. So, a second bankruptcy may not play out as well for Air Canada as its first one did.



For these reasons and more, now would be a good time to consider selling AC stock. At this point, it's far from a foregone conclusion that the company will even survive.

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