Boeing Just Revealed Why Air Canada (TSX:AC) Stock Is in Trouble

Description

Air Canada (TSX:AC) stock is in trouble. Shares are 70% lower since the year began. The financials are in horrible condition. Over the last six months, the company lost nearly $3 billion. Note that its entire market cap is just $5 billion.

Unfortunately, conditions won't improve anytime soon, at least if you trust the new forecast from **Boeing** (NYSE:BA).

The airline industry has always been a game of supply and demand. If there are too many planes versus passenger traffic, pricing is weak, sending airline stocks lower. But when supply is tight, pricing improves. That dynamic is what pushed Air Canada stock up *50 times* in value last decade.

If you want to know the future of airline stocks, just look at the supply of planes. The latest report from Boeing gives us our best clues yet.

Here are the numbers

"Boeing is cutting its expectations for new commercial aircraft demand over the next decade, citing what it estimates will be a years-long slump in travel demand because of the coronavirus pandemic," *CNBC* reported this week.

This revelation should give Air Canada investors pause. The only reason Boeing would slash its order projections is if the airline industry doesn't anticipate buying more planes. And if they don't anticipate buying more planes, that means they already have plenty. Having plenty of planes at a time when traffic is 95% below historical averages is a recipe for disaster.

Even worse, Boeing expects lower orders for another decade! That's crazy. We may have a vaccine for COVID-19 in the next 12 to 24 months, but Boeing is saying that pain in the airline sector will persist long afterwards.

There simply isn't enough demand to fill current supply. That puts Air Canada stock in a precarious position.

“The world’s airlines will need 18,350 planes worth $2.9 trillion over the next 10 years, an 11% drop from its forecast a year ago and a jarring downbeat prediction after years of strong growth in travel around the world,” CNBC concluded.

Can Air Canada stock survive?

At this point, there’s very little reason to believe airline stocks will rise. There may be a dead-cat bounce at some point, but the fundamentals are strongly against the industry. Another wave of COVID-19 shutdowns, plus a potential fundraising cliff should eventually send more carriers into bankruptcy.

The question right now is, can airline stocks survive? The answer for Air Canada is unsettling.

Right now, the company is still burning more than $1 billion every quarter. In 2020, total losses could approach $5 billion. So far, the market has plugged the capital with additional equity and debt financing, but at some point, it’ll be the end of the line.

Executives believe the company has around $9 billion in liquidity left. In practical terms, that means the business only has 12 months or fewer before the market could pull the plug. Are you willing to bet that conditions will rebound strongly before then?

Even if they do, airlines will face a difficult long-term pricing battle due to the supply-demand imbalance. This simply isn’t a place you want to trust your money.

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