



Should Air Canada Stock Be on Your Buy List Today?

Description

Air Canada ([TSX:AC](#)) stock is catching a new tailwind on the hopes for a recovery in the airline industry in 2021. Contrarian investors are wondering if this is a good time to buy.

COVID-19 vaccine impact on Air Canada stock

Pfizer just released positive news on its COVID-19 vaccine. The company said trials of the vaccine showed it to be 90% effective. In fact, Dr. Fauci, the coronavirus advisor to the White House, previously said a vaccine that is 50-60% effective would be helpful.

Health officials in Canada said they feel optimistic that vaccines will begin to be available in early 2021. Widespread vaccine availability could occur by the middle of next year.

This is all positive news for Air Canada and its shareholders. The company faces a dire situation with international travel restrictions and domestic quarantine rules on inter-provincial movements.

Air Canada results

The scope of the challenges are evident in Air Canada's Q3 2020 earnings. The company [reported](#) a drop in revenue of \$4.77 billion, or 86% for the quarter compared to last year, which led to an operating loss of \$785 million for the three months. In Q3 2019 the company had operating income of \$956 million.

Air Canada cut 20,000 jobs in June to preserve cash flow as it cancelled routes and grounded dozens of planes. Overall capacity in Q3 dropped 80% compared to the same quarter last year. Air Canada says the Q4 drop will be close to 75%.

The company has identified another 95 domestic, U.S., and international routes it might have to suspend due to the ongoing challenges. Air Canada realizes it is going to be a much smaller company for several years.

On the positive side, the company's net cash burn through the third quarter came in much lower than anticipated. Air Canada forecast net cash burn of \$15-17 million when it reported the Q2 results. In the end, the company burned through \$181 million in the quarter, or roughly \$9 million per day.

Net cash burn for Q4 is projected to be \$12-14 million per day.

Government bailout impact

Air Canada is in discussions with the government for sector-specific aid to help it survive the pandemic. The company will hold off slashing the extra 95 routes pending the results of the discussions.

While government help is positive in the near term, investors need to watch the fine print on any deal. Environmental commitments, equity positions, or even nationalization are all possible. Depending on the level and scope of the government involvement, the long-term result could be negative for Air Canada stock.

Should you buy Air Canada stock now?

At the time of writing, Air Canada trades near \$19.50 per share. The stock started the year at \$50, so it might appear [cheap](#) at first glance. However, the company is very different today than it was just a year ago and it will be at least 3 or 4 years before capacity returns to 2019 levels.

Even with a widespread vaccine, people might stay reluctant to book trips. The business travellers, in particular, might never return to previous levels. The effectiveness of online meetings over the past eight months shows that companies do not need to spend thousands of dollars to send executives and sales staff on several trips per year to meet clients.

Business class is very profitable for Air Canada. If there is a permanent drop in demand for these seats, the company could find it difficult to regain previous revenue levels.

Fuel prices are another concern. Oil is currently cheap and jet fuel remains the largest expense for airlines. In the event fuel demand soars in the next two years, the price of [oil](#) could rally significantly, which would be negative for Air Canada and its investors.

Air Canada stock might continue to rally in the near term, but buy-and-hold investors should be careful chasing the latest surge. Until we get clarity on how the government plans to keep Air Canada alive, it might be best to stay on the sidelines.

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