



This Is Bad: Air Canada (TSX:AC) Stock Could Be Headed for Collapse

Description

Air Canada ([TSX:AC](#)) stock is in an interesting place.

Shares are down 70% since the year began. The coronavirus pandemic caused air traffic to plummet, and no airline was spared. Right now, the business is losing more than \$1 billion every 90 days.

But all is not lost. Many investors are expecting a rebound. If that happens, shares could *triple* in price.

There's only one problem: Canada just changed the rules.

The rules are changing

Air Canada executives blame government restrictions for their current dilemma.

"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," CEO Calin Rovinescu said [previously](#). "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. At present, there exists no fewer than four overlapping barriers to travel and economic recovery, imposed by governments in Canada."

If Air Canada executives were hoping for relief, they shouldn't hold their breath.

"Anyone entering Canada by air as of Nov. 21 will be required to submit a quarantine plan and a novel coronavirus self-assessment before getting on a flight, according to new rules released by the Public Health Agency of Canada," [reported](#) *Global News*. "Under the old rules, passengers did not need to provide this information until they arrived at a Canadian airport. They also had the option of completing a paper form."

If the government indeed is the creator of Air Canada's current situation, these new rules will only exacerbate the pain. But as we'll see, the airline's problems are much bigger than short-term travel

restrictions.

Air Canada stock could collapse

The future isn't pretty for airlines. Most executives believe demand won't return to baseline for another few years. One CEO thinks demand will *never* return to normal. That's a problem, as the industry lives or dies based on supply-demand dynamics.

Warren Buffett famously avoided airlines for decades. He argued that every time industry revenues went up, carriers rushed to order more planes. Because planes are inflexible assets — they continue to exist for decades after they're bought — this rush to purchase created a structural over-supply of planes versus passengers.

That dynamic is playing out in extreme fashion right now. Air Canada, for example, is only flying at 5% of its usual capacity. That means it has 20 times more planes than passengers.

As expected, this imbalance is causing Air Canada to rack up huge losses. This year, the business could burn \$5 billion in cash, even though its current market cap is *less* than \$5 billion.

The clock is ticking for every airline. No business can withstand losses forever. But if passenger demand is depressed for years to come, profitability may not emerge until 2023 or beyond. There will simply be too many planes chasing too few passengers.

For Air Canada, this timeline is terrible when it comes to survival. With less than two years of financial runway left, bankruptcy could be on the table next year.

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