



Air Canada (TSX:AC): Will the Change From Passenger Flights to Freight Carriers Save the Day?

Description

The impact of COVID-19 has affected **Air Canada's** ([TSX:AC](#)) international travel, forcing it to slash the routes and ground aircraft. It is continuing to consolidate its services due to losses created by the coronavirus pandemic. AC has brought out several initiatives to ease out blanket restrictions due to the pandemic.

Earlier, AC curtailed its domestic network from 62 to 40 airports and suspended regional routes. The prolonged travel restrictions forced the airline to cancel aircraft orders due to the drastic drop in passenger revenue by 95% year over year (YoY) in the second quarter. AC is now eyeing to shift its focus to the cargo business for more revenue.

Air Canada shifts its focus from passenger to freight services

Air Canada is now shifting its focus from passenger planes to freight carriers. AC CEO Calin Rovinescu, in the third-quarter earnings call, said that the airline would be converting the Boeing 767 aircraft to freighters. He [noted](#) that cargo transport will become an “increasingly important part of our business.”

AC will lay aside the additional route suspensions and Canadian station closures, as the government works out financial aid for the ailing airline sector. It is withdrawing 79 aircraft from its fleet and aborting 10 Boeing Co BA.N737 MAX and 12 Airbus A220 AIR.PA jets to save cash burn. Rovinescu said he expects MAX to return to service in Canada by 2021.

Air Canada to follow Cargojet's footsteps

Cargojet ([TSX:CJT](#)) has shown a strong performance, even during the pandemic. Its adjusted free cash flow grew more than 500% in the second quarter and 300% in the third quarter on a YoY basis. The company's adjusted free cash flow reached \$144.8 million in nine months till September 30. The holiday season will entice consumers to do online shopping, which will give rise to more online orders.

Therefore, Cargojet sees more growth in e-commerce orders, as it provides time-sensitive cargo services.

AC was burning cash, while Cargojet was making cash, even during the pandemic. This is where cargo comes into the picture. Cargojet's increasing cash flows could have been the trigger point for AC to shift its focus towards the cargo business. AC had conveyed its interest to become a freighter operator from the time coronavirus shifted attention to cargo's importance. Calin Rovinescu said, "Cargo will become an increasingly important part of our business as we plan to expand to dedicated freighters and focus on e-commerce."

As AC is making limited revenue from its commercial airline business, it is removing seats and replacing them with cargo boxes. This won't be the first time for AC to adopt this makeshift, as it has already enlisted three of its Airbus A330s to ferry medical supplies.

Cargojet will get a new competitor

Calin Rovinescu always looks for alternatives to mint money for AC through different initiatives. Nonetheless, his idea of converting the Boeings to freight carriers has pulled down Cargojet's stock price 14%. But Cargojet will continue to grow at a slow pace.

AC will also stabilize and grow gradually, but its stock will take longer to give returns. All attempts and measures the airline takes to save itself will be of no purpose till any COVID-19 vaccine plays the role of catalyst. At present, it is difficult to say whether AC will be able to sustain after [Rovinescu retires](#), and the new CEO takes the helm in February 2021.

My suggestion would be to buy stocks of Cargojet or look for other options. Simultaneously, keep an eye on the growth of AC stock to understand if it can maintain the same discipline as Cargojet to sustain its strength in the coming few quarters.

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