



Air Canada (TSX:AC) Stock Surged Over \$20: Buy or Sell?

Description

Canada's flag carrier reported better-than-expected results in the third quarter of 2020 on account of effective cost-cutting measures. **Air Canada's** ([TSX:AC](#)) daily cash burn during the quarter was \$9 million instead of the \$15-\$17 million guidance. For the first time since June 5, 2020, the stock also surged over \$20 on November 9, 2020.

The reasons for the [sharp jump](#) of 29% were the potential government assistance and development of a COVID-19 vaccine. Although Air Canada still expects travel demand to return at 2019 levels in three to five years, it's a ray of light for investors. The company will also keep more planes in the hangars to save \$3 billion from now until 2023.

Lost revenue

According to Calin Rovinescu, Air Canada's CEO, the company lost \$520 million to \$600 million in revenue in Q3 2020 due to traffic decline. He cites three reasons: the blanket ban on foreign nationals, mandatory 14-day quarantine for all arriving passengers, and Atlantic Canada travel bubble.

Since September, Air Canada has been conducting COVID-19 tests on returning passengers. So far, the results from 13,000 tests are encouraging. The airline's chief medical officer Jim Chung said, "The preliminary results suggest a shorter, test-based strategy may be an available and safe alternative to the 14-day quarantine."

Management hopes the data could convince the government to ease blanket travel restrictions and the mandatory 14-day quarantine. Transport Minister Marc Garneau announced Ottawa's readiness to launch talks but not about the lightening of travel restrictions. The [pandemic-battered](#) airline industry might receive federal assistance after all.

Potential industry support

Lucie Guillemette, EVP and chief commercial officer of Air Canada, expects a quick rebound of

business travel demand should restrictions loosen or a working vaccine becomes widely available. However, the government wants to tackle the sector's desperate plea for financial support first.

Apart from the 90% reduction in passengers, 20,000 workers are out of jobs or on leave. Air Canada closed eight regional stations and suspended 30 domestic routes in 2020. It might close nine more Canadian stations soon. Rovinescu said Air Canada welcomes the opportunity to explore a possible aid program for the country's airline industry.

However, Minister Gardeau hints any help would be contingent on Air Canada's refunds payment to angry passengers. The Canadian Transportation Agency received 8,000 complaints, mostly on refunds for cancelled flights, between mid-March and the end of August.

Several class-action lawsuits were filed against Air Canada, not to mention three petitions signed by 100,000 customers calling for customer reimbursement. The U.S. Department of Transportation and European Commission have required airline companies to give back passengers' money for cancelled flights.

Smaller footprint

The Trudeau administration hasn't offered any industry-specific assistance to the beleaguered sector. Retailers of vacations and leisure travel are also affected by the government's inaction. Nonetheless, the beginning of talks to establish a process with major airlines regarding financial assistance is a step in the right direction.

Air Canada remains a fragile, if not a risky investment, even with a potential federal aid. CEO Rovinescu admits the company's footprint will be small for several years. Thus, it isn't advisable to bet on the airline stock today.

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Date

2025/09/10

Date Created

2020/11/16

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