



## Air Canada: 12 Million Reasons to Avoid the Stock

### Description

The vaccine news we have gotten over the last two weeks is exciting, and distressed **TSX** stocks like **Air Canada** ([TSX:AC](#)) have rallied. While the news of another vaccine is extremely promising, the reality is that currently, what we know about the vaccines doesn't change much.

The timeline for the vaccine to be made readily available is basically roughly in line with what a lot of experts were predicting. Plus, there are still a tonne of unknowns.

In the meantime, businesses being impacted by the pandemic continue to struggle. And now, with the second wave of coronavirus imposing lockdowns worldwide, the near term doesn't look promising for these businesses.

Despite that, investors have still been eager to buy stocks like Air Canada in anticipation of a rapid rebound when the world recovers from the pandemic. However, that could still be a long way off, with even the World Health Organization last week warning against relying solely on a [vaccine](#) to end the pandemic.

With that in mind, here is why I would still hold off on buying Air Canada stock.

### Air Canada's operations

As usual, Air Canada once again struggled in its most recent quarter. Passenger revenue was down a whopping 90% in the third quarter, compared to last year. The company also operated only 18% of its capacity in the quarter.

The company is clearly struggling. However, you have to give it credit. It's doing everything it can to cut costs. Nearly 150 aircraft remained grounded in the quarter, and the company has found other impressive ways to save on expenses.

Unfortunately, it's still seeing a major impact on its operations. Even its domestic operations are being hampered by interprovincial quarantine measures. This is making it extremely hard for the stock to

begin its [recovery](#).

Looking forward, it expects business to increase slightly in the fourth quarter. Air Canada is planning to use 25% of the capacity it did in the same quarter during 2019. That's slightly more than the 18% in the third quarter, but clearly still way off normal.

## 12 million reasons not to buy Air Canada stock

It's no secret that the stock has been struggling, but now many investors are eager to buy Air Canada stock now that multiple effective vaccines have been announced. However, I would caution against buying Air Canada just yet.

The company is still losing an enormous amount of cash each and every day. During the third quarter, Air Canada burned through roughly \$9 million per day. \$9 million seems like a lot, but it was actually lower than the company expected. Cash burn numbers came in lower, as they were helped by deferrals of payments and timing of tax credits received.

Going forward, Air Canada expects that during the fourth quarter, it will lose between \$12 million to \$14 million each day. This is precisely why I would hold off buying the stock just yet.

Of that, at least \$12 million of cash it's burning, roughly \$4 million a day will be for capital expenditures and another \$5 million a day for aircraft leases or debt-servicing costs.

This is the worry with buying Air Canada too early. Obviously, investors want to bet on an airline stock recovery. This requires buying the stock before others. However, if you do it too soon, you could end up losing money. After all, you're buying ownership in a company that's losing over \$10 million in cash every day.

## Liquidity position

Since the pandemic began, Air Canada has had to raise roughly \$6 billion in liquidity. This is both good and bad. It's impressive that the company can raise that amount of cash and shows investors have faith that Air Canada can survive the pandemic.

At the same time, however, it shows you how much the pandemic has crippled business. To put that into perspective, the company has raised more money to survive the pandemic than the business is even worth today.

At the end of the third quarter, the stock had \$8.2 billion of liquidity, a number that will continue to decline with the cash it's burning every day. \$12 million to \$14 million per day equals between \$1.1 billion and \$1.3 billion for the quarter. So, until there is a clear path to Air Canada's recovery, I would avoid the stock.

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