



## Air Canada (TSX:AC): Will Better COVID-19 Testing Lift the Stock?

### Description

Airlines like **Air Canada** ([TSX:AC](#)) hope that better COVID-19 testing will lift demand. Passenger traffic is still down 90% year over year. If potential customers feel safer, airlines argue, demand should revert higher.

This sounds like a good argument, and many investors agree. Airline stocks are higher by 20-30% in recent weeks.

Will better testing actually save the airline industry?

### Here's the deal

If you ask airlines, they're confident that better testing is the key to their revival.

"We believe the ability to provide fast, same-day COVID-19 testing will play a vital role in safely reopening travel around the world and navigating quarantines and travel restrictions," [said](#) the chief customer officer for **United Airlines**.

United is so confident that it's rolling out rapid testing across its global fleet.

"We'll guarantee that [all customers over two years of age] on board has tested negative for COVID-19, adding another element to our layered approach to safety," he concluded.

Air Canada is following the same strategy, recently ordering large quantities of rapid coronavirus tests .

"We are finalizing an initial order from **Abbott** for 25,000 rapid test kits for voluntary employee testing now that it has been approved for use in Canada," the company [noted](#). "The preliminary results suggest a shorter, test-based strategy may be an available and safe alternative to the 14-day quarantine."

That last part is crucial for Air Canada. Executives complained all year about government restrictions.

They believe passenger traffic would be much higher if international quarantine requirements weren't in place.

"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," Air Canada CEO Calin Rovinescu [stressed](#).

"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," he said. "At present, there exists no fewer than four overlapping barriers to travel and economic recovery, imposed by governments in Canada."

## Will Air Canada benefit?

There's no doubt that airlines will benefit from faster, cheaper testing. Coronavirus fears are clearly the number one factor depressing airline demand. There's only one problem: the clock is ticking.

Let's look at Air Canada as an example. Right now, it has roughly \$8 billion in liquidity. Over the last nine months, the airline lost nearly \$4 billion. Since the year began, debt has spiked from \$2 billion to \$5 billion.

The question now isn't if airlines can benefit from better testing; it's if they can survive. We've already seen a few major bankruptcies around the world, and they won't be the last.

The worst part is that even if Air Canada survives, there's no guarantee that current investors will benefit. Since March, the company has raised more than \$6 billion in liquidity. That's given it financial runway, but also massively diluted investors.

Recent testing and vaccine news boosted the industry, yet airline traffic won't return to baseline for another few years. That's not my opinion — it's the consensus of nearly a dozen airline CEOs.

Might Air Canada survive the current crisis? It's possible; just don't think you can profit.

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