



## A Longer Runway to Recovery for Air Canada (TSX:AC) Stock

### Description

Lockdowns have been reinstated partially in many countries. Holidays are also around the corner. People now want to travel to various destinations for different reasons. But money seems to be crawling up at a slow rate for the aviation sector to gift travel contentment to millions of customers. **Air Canada (TSX:AC)** saw its revenue fall by more than 85% in the second and third quarters. In the [third quarter](#), AC had a cash burn of up to \$818 million. It also barred the operating loss of \$785 million.

**Pfizer's, BioNTech's, and Moderna's** COVID-19 [vaccine announcements](#) came in to rescue the airline stocks. On November 9, Air Canada shares soared 28%. Its stock is at 35% month to date with inspiration towards growth.

**Suncor Energy's** share price is towering at \$19.67 as of November 16, even though investors who'd bought the stock before the pandemic are facing a loss of 52.41% year to date. The company is aligned to touch its operating cost-reduction earmark of \$1 billion and its capital cost reduction of \$1.9 billion. Warren Buffett is willing to wait for five more years to reap the benefits when Suncor's stock price triples.

**American Airlines** spiked up 18%, **Delta Airlines** shot up 17%, and **United Airlines** escalated towards 19%. Calin Rovinescu, president and CEO of Air Canada, shared his thought that AC will take at least three years to reach the 2019 strength of revenue and capacity.

### Will the fourth quarter benefit?

Earlier in 2002, the global outbreak of Severe Acute Respiratory Syndrome (SARS) had impoverished AC, resulting in a loss of US\$295 million. AC was also indebted to \$13 million, and the cash was getting exhausted. It somehow emerged from the bankruptcy almost after 18 months of reorganizing on September 30, 2004. The nightmare came back in 2020 with COVID-19, leaving the globe in isolation.

AC is still in the state of partial hibernation to align its revenue and service with demand. In the fourth quarter, it plans to operate 100 all-cargo flights per week. In this uncertain pandemic situation, it still

predicts net cash burn between \$12 million and \$14 million in the fourth quarter. This includes a cash burn of \$4 million in capital expenditures and \$5 million in the lease and debt service cost. At present, there is too much ambiguity at each step of recovery, and we cannot be assured of the fourth quarter giving concrete benefits to the airline.

## Bailout: Bullish or bearish?

The second wave of the pandemic has brought back a crucial tide of infections. To cut down on cash burn, AC has chosen various alternatives. One alternative is the conversion of several Boeing 767 aircraft to freight transport that can help AC in raking in more cash through the cargo business. AC also plans to retire 79 aircraft and has canceled 10 Boeing Co 737 MAX and 12 Airbus A220 jets. To maintain liquidity, AC raised \$485 million through the sale and leaseback of nine Boeing 737 Max 8 planes. This time, AC will avert bankruptcy, as the government has also decided on bailouts for the airline sector.

Canadian airlines are waiting for a bailout while non-Canadian peers have already obtained it. Air Canada needs to give cash refunds for flights and travel packages that were called off because of COVID-19. The bailout could comprise of

- Low-interest loans (from Business Development Bank of Canada or Export Development Corporation);
- An airport fees rollback; and
- A sector-specific payroll support scheme.

Nonetheless, these bailouts come with a condition. Firstly, airlines won't be able to utilize the funds from the support package to pay their executives. Secondly, carriers will have to restart services to key regional connections, which they've suspended since the pandemic started.

## All eyes on the COVID-19 vaccine and not on Air Canada stock

Investors need not get overwhelmed with AC's recent stock price surge, as concern still lies around the aviation sector. The COVID-19 vaccine will play the ultimate role as a comeback for the airlines. The sooner the vaccine arrives, the sooner stocks will see the spring in their numbers, but even that will take at least three years. AC stock might not cross \$22 before 2022.

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