Should You Sell Air Canada (TSX:AC) Stock as Coronavirus Cases Surge?

Description

The second wave of coronavirus cases might be worse than the first one in Canada and south of the border. With COVID-19 pandemic infections spreading out of control, airline stocks such as **Air Canada** (TSX:AC) are back under investors' radar.

Airline companies have been among the worst-hit amid the pandemic, and the vaccine news in the last two weeks helped to offset a portion of this decline. Air Canada stock is trading at $21.7 and has gained 35% in market value in the last month. Despite the recent uptick in share prices, Air Canada is still trading 60% below its record high of $52.71.

So, will rising COVID-19 cases prove to be a setback for Air Canada and its peers, or does positive news regarding the development of the vaccines make it a good time to buy these stocks?

Lockdown restrictions might be re-imposed

All COVID-19-related numbers have been moving in the wrong direction in the last month. The rising number of cases has increased significantly in Europe and North America. Several countries including the U.K. and France have re-imposed partial lockdowns, and as health officials are urging people to remain at home, it might negatively impact the recovery in airline stocks.

Prior to the second wave, airline companies were optimistic about an uptick in a sequential rise in quarterly revenue in Q2 driven by strong sales in the holiday period. However, on November 19, **United Airlines** noted, "In the last week, ending November 18, 2020, there has been a deceleration in system bookings and an uptick in cancellations as a result of the recent spike in COVID-19 cases."

Further, other companies might expect cash burn to increase in the near term, as renewed restrictions imposed by the governments will weigh on demand. The capital-intensive airline industry might be severely hampered if the weakness continues to extend in the first half of 2021.

While the vaccines might be approved by December, it might take at least six months to be manufactured and distributed in developed countries. In emerging economies of Asia and Latin

America, it might take longer, which means airline demand is unlikely to reach pre-COVID-19 levels by 2023.

Further, the airline and tourism industry is one of the last to recover from an economic recession, as people tend to postpone their travel and leisure plans.

Air Canada has a strong balance sheet

What does the recent change in demand trend mean for investors and companies? While the impact of the pandemic has been unprecedented, it makes sense to invest in companies that have a strong balance sheet and robust financials, as they are equipped to sustain near-term losses.

Air Canada ended Q3 with a cash balance of $7.8 billion and total debt of $13.2 billion, according to data from Yahoo Finance. This means its net debt position of $6 billion is manageable. Further, while Air Canada has exposure to long-haul flights, it is a domestic giant, which will help it stage recovery at a faster pace than peer companies in the United States. The recent decline in air travel demand should not be a reason to sell your stock in Air Canada.

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