



Lockdown: What Happens to Air Canada's (TSX:AC) Stock Now?

Description

In late November, much of Canada is heading into lockdown mode. All of Manitoba is currently under lockdown, while Ontario, Alberta and B.C. have various measures in place. This environment is not one where people are going to be eager to travel. With lockdowns come 14-day self-isolation orders for new arrivals—a major deterrent to air travel.

Which brings us to **Air Canada** ([TSX:AC](#)). If there's one Canadian company that stands to lose big time from lockdowns, it's this one. So far this year, the company has lost over \$3 billion because of lower demand for travel.

And now, travel restrictions are once again on the rise. In the past few months, AC stock has been rallying because of [vaccine news](#). But with another lockdown in the making, it looks like the company will have at *least* one more losing quarter.

Lockdowns cost Air Canada big time earlier this year

The cost of lockdowns to Air Canada has been impossible to overstate. In the first quarter, the company [lost \\$1.05 billion](#) thanks to lower revenue. In the two following quarters, the losses were \$1.7 billion and \$685 million, bringing us to about \$3.4 billion in total losses. If Air Canada sees another \$1 billion loss, then its year-to-date losses will be over \$4 billion.

What will happen *this* time?

With that said, it's not certain that Air Canada will run another huge loss. The company has been lobbying hard for rapid testing as an alternative to 14 day self isolation orders. If it gets somewhere with that, then it may stem the cash bleed.

But it's far from a sure thing. Most provinces that are currently implementing lockdowns are also implementing 14-day self isolation orders. Rapid testing is being rolled out, but so far it's an adjunct, not an alternative. As of right now, the biggest barrier to travel within Canada still stands, except for

international flights, many of which are cancelled outright.

Foolish takeaway

Investors seem to think that the COVID-19 vaccine is going to save Air Canada. The stock has been rallying out of control in the past month, with no signs of slowing down. But the fact is undeniable: the company's fundamentals are in shambles. It has lost \$3.4 billion this year and revenue is down 88%.

Fixed costs like interest expense make up an enormous percentage of sales. The picture is just not good, and there's nothing really happening that could prevent Q4 from looking like the previous quarters.

Make no mistake: If you buy Air Canada right now, you're effectively betting on a rapid vaccine deployment. There is nothing else going on right now that could take this company out of its slump. The pandemic isn't going anywhere and lockdowns are once again the main means of fighting it.

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