Air Canada: 9.8 Billion Reasons to Avoid the Stock

Description

Air Canada (TSX:AC) has had a whirlwind year. After reaching all-time highs at the beginning of the year, the pandemic sent the stock crashing. Even now, shares have only reached about half pre-crash value. But then finally, news of a vaccine meant that there was perhaps some normalcy on the horizon.

Unfortunately, that's likely not going to be the case for yet another year. The vaccine will not be available to the public at large for quite some time. Instead, it will go first to those that need it most, such as the elderly and those with compromised immune systems.

So that means Air Canada stock will likely still see revenue drop again and again. And this means the company will continue to take on enormous debt — and it already had a lot to get through.

Drowning in debt

While Air Canada stock might be rebounding, there's serious work to be done. The company already had almost $8 billion in debt back in March before the pandemic from the company reinvesting into its infrastructure and a fleet of fuel-efficient aircrafts. The company purchased back its Aeroplan program, and was in the midst of acquiring **Air Transat** before the pandemic. All of this cost money, but set up the company to make a killing years from now for long-term investors.

Then the pandemic hit. The company had planes grounded during lockdowns, and still even today there isn't full use of its planes. This has cost the company billions in debt with planes grounded, especially as it actually costs the company even more to make sure its passengers are safe when they do decide to fly.

Debt reached an incredible $10 billion, and has come down only a bit to $9.8 billion during the latest earnings report. Revenue decreased by 50% year over year, and earnings per share fell by a whopping 445%! So what should investors do with Air Canada stock?

Two options

There are two things to consider when buying Air Canada stock. On the one hand, it's true that news of a vaccine will give at least a temporary bump in share price. On top of that, there could be a bailout any time now. That means this will give the stock price yet another bump.

If you already own Air Canada stock, I don't think you should dump it. In fact, if you have a chance to own these shares for over a decade or more, then it might even be a good idea to buy more. The idea is to buy and hold long term, giving investors the best chance to make money no matter what's happening in the markets right now. Air Canada is a solid company and will continue to be around in the future.

The other option is if you're looking to sell your shares in the next few years, have a price in mind and stick to it. It could be a bumpy ride in the next year or so. So if you need the cash, get what you want out of it with no regrets. The pandemic threw Air Canada stock for a loop. So don't be risky and buy hoping for a quick turnaround, and don't sell your stock in a panic.

Bottom line

If you have the time to wait, you can buy Air Canada stock. But if you're looking to sell in the next year or so, the company is drowning in far too much debt to see shares increase by a large amount. But once it gets there, with the vaccine in use and planes in the air, long-term investors should see a serious increase in the next decade at the very latest.

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