Why You Should Avoid Air Canada (TSX:AC) Stock

Description

The last two weeks were full of surprises for **Air Canada** (TSX:AC). The COVID-19 vaccine updates were a real wavemaker in the market and unexpectedly turned the table for investors. The balance seems to be changing this month, where value stocks are appreciating. The vaccine is hinting to investors to turn towards shares that will benefit from the economic revival. AC stock jumped almost 70% this month, suggesting that the airline will revive.

But the fact that AC is reducing its fleet size by a third indicates that the recovery will not happen anytime soon. It has also decided to deduct capital spending by $3 billion through 2023. Even though the government of Canada is working to bail out the airlines from this pandemic, it might not put investors' interests at the front.

Value investors: Run away from airline stocks

Value investors find AC's business fundamentals weak. So, they prefer to put this stock aside for a while. Warren Buffett shared his thoughts on how this pandemic has hurt many industries, especially the airline industry. Most investors thought that Buffett would be a buyer in the pandemic crisis. To everyone's surprise, he decided to sell his airline stocks. Buffett's company **Berkshire Hathaway** sold US$6 billion worth of airline stocks in April. He saw no value in these stocks.

Talking to *BNN Bloomberg*, Baskin Wealth Management portfolio manager Barry Schwartz said, "Warren Buffett made mistake buying airlines, I made a mistake buying airlines, and I don't think I'm ever going to do that again." He discussed business travel woes faced by the airline industry.

Schwartz added, "A lot has to go right for Air Canada — we need a vaccine, we need a change in human behaviour and, meanwhile, there's a pile more debt on the balance sheet."

Poor effects of COVID-19 on Air Canada

The pandemic pulled AC's revenue down 86% year over year in the third quarter. Its operating capacity came down to 20%. Due to the maximum number of seats flying empty, AC had to merge hundreds of flights in September. It was burning $9 million in cash daily in the third quarter, despite a wage subsidy and low oil prices.

Passengers who pre-booked their flight tickets have received vouchers instead of cash refunds that raged anger in them. Passengers that are not satisfied with vouchers might switch to other carriers that give cash refunds. The government has asked AC to refund the pre-booked tickets as a condition for a bailout.

The battered airline has cut off eight regional stations from its network and suspended 30 domestic routes, blaming the government for their lack of support. AC grounded 90% of its planes and laid off thousands of workers to tackle the financial hardships during this crisis. AC's third-quarter financial results reported a loss of $685 million.

AC's net debt has increased by 66% year over year to $4.97 billion at the end of the third quarter. Even after COVID-19 wears off and airlines return to flying regularly, they will be piled with debt, which will take another five to 10 years to pay.

These are just a few reasons why AC will not able to recoup from the crisis. There are endless other reasons to prove why AC is not a good buy at this point.

Investors! Break with Air Canada for three years

AC has only one reason for investors to take a short glance at them, and that is its stock price of $20-$25. Some investors presume this stock price to be cheap. But if you look from the angle that you are paying over $20 per stock for a company that will not return to profit for the next three to five years, that is one expensive stock.

The company has more cons, and investors are negating its financial plans. It is better to leave Air Canada till it manages all its hurdles and hindrances and gets itself bailed out from this crisis. Look into other stocks that are attractive in raking in more cash.

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