Air Canada (TSX:AC) Stock Spikes 68% in November: Should You Buy Now?

Description

Air Canada (TSX:AC) stock sank in 2020, as travel restrictions amid the rapid spread of the coronavirus pandemic weighed heavily on its operations. However, November marked immense buying in Air Canada on the positive vaccine data, which led to a 68% jump in its stock in one month.

Investors remain hopeful that an effective coronavirus vaccine could drive travel demand and lead to a quick recovery in Air Canada stock. However, is the rally in Air Canada stock sustainable, or will continued uncertainty drag it down?

Gradual recovery

While the passenger traffic fell drastically in 2020, Air Canada's Q3 numbers showed a sequential improvement, thanks to the resumption of domestic operations and steep cost-reduction measures. Its Q3 revenues plunged 86% year over year to $757 million. However, it jumped approximately 44% on a quarter-over-quarter basis.

What impressed me is the sharp decline in its net cash burn rate. Air Canada reported a net cash burn of $818 million or $9 million per day in Q3, which is way better than the preceding quarter's net cash burn of $1.72 billion, or about $19 million per day. It also came narrower than management's forecast range of $1.35 billion to $1.6 billion. Air Canada's operating loss of $785 million narrowed down significantly from $1.56 billion in Q2.

The improved numbers reflect Air Canada's company-wide cost-reduction and deferral program, which led to a decline of $3.03 billion, or 66% in its operating expenses.

With unlocking measures and a gradual pickup in demand, we could witness Air Canada increasing its capacity sequentially. However, the prevailing coronavirus situation is likely to restrict passenger traffic in the coming months.

Challenges to persist

While an effective vaccine is on the horizon, it's too early to say that airline stocks will sustain the uptrend, as it would take several months for a vaccine to reach the general public. Besides, the structural shift towards remote work could hurt the aviation and travel industry, even in the post-pandemic world.

With the resumption of domestic operations, Air Canada has marked sequential recovery. However, passenger traffic remains weak on a year-over-year basis. Air Canada registered a year-over-year decline of 88% in passengers carried in the most recent quarter. Meanwhile, its capacity, measured through available seat miles, plunged 81.7% year over year.

Air Canada plans to lower its capacity by 75% in Q4 amid international border closures and weak demand. Moreover, the passenger airline company expects its net cash burn rate to rise sequentially. It projects net cash burn to be in the range of $1.1 billion and $1.3 billion or between $12 million and $14 million per day in Q4.

Final thoughts

While the above numbers look scary, Air Canada could tide over the crisis with the gradual pickup in demand, significant cost reductions, and robust liquidity. Meanwhile, an effective vaccine could step up the recovery pace. However, I must stress that investors with a medium- to long-term outlook should only consider buying Air Canada stock, as it is likely to remain highly volatile in the short term. Investors could use a pullback in Air Canada stock to go long for exceptional returns.

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