



Bad News: Air Canada (TSX:AC) Stock Gets Another Challenge

Description

Air Canada ([TSX:AC](#)) stock surged last month as multiple vaccines received positive results. If the world gets vaccinated in 2021, and potential customers feel more comfortable flying, we could see a rapid and dramatic spike in passenger traffic.

There's only one problem: the company will still lose money in 2021.

The reason for this is simple. Airlines only make money when their planes are flying close to full capacity. Looking at the supply-demand imbalance, profits will be hard to come by next year.

Even worse, Air Canada just hit another hurdle on its road to recovery.

Another challenge comes

When COVID-19 first hit Canada, air traffic immediately plummeted by more than 95%. Nearly a year later, traffic is still 90% below 2019 levels. Air Canada executives blame this on draconian travel restrictions.

"For Air Canada, the pandemic and government-imposed lockdowns and travel restrictions the world over have ended a run of 27 consecutive quarters of year-over-year revenue growth," CEO Calin Rovinescu [stressed](#) earlier this year.

"With Canada's federal and interprovincial restrictions — which have been amongst the most severe in the world — we carried less than 4% of the customers carried during last year's second quarter," he added. "At present, there exists no fewer than four overlapping barriers to travel and economic recovery, imposed by governments in Canada."

If travel restrictions are hindering Air Canada's recovery, the latest news out of Ottawa should scare investors.

"Those looking to visit their northern neighbors in Canada may have to keep waiting," [reports](#) *Pioneer Press*

. “It could be January 2022 before the border reopens for normal traffic between the two countries,” it concludes.

What’s happening to Air Canada stock?

Time is ticking for airlines. Nearly every carrier is losing money on a daily basis. Some have already gone bankrupt.

So far, Air Canada has been able to tap the markets to stem the cash burn. It’s raised billions of fresh capital this year by selling stock, issuing new debt, and collateralizing planes. But this can only go on for so long.

In 2020, the company should lose between \$4 billion and \$5 billion. That’s nearly as much as the current market cap. If the market didn’t come to the rescue, the airline would have gone bankrupt. Investing right now is a bet that markets will remain willing to cover losses until profits reemerge.

What will happen to Air Canada? The future is extremely cloudy, but there are only three options.

The first option is that the company is able to secure additional financing over the next several quarters, keeping it alive, but also massively diluting gains for existing shareholders. The second is that the market finally refuses to continue subsidizing losses. In this scenario, bankruptcy could arrive in a matter of months.

The final option is that demand rebounds rapidly. We’re talking over the next 90 to 180 days. Profits reemerge due to lowered competition, and shares double in value. This scenario is possible, but highly unlikely given recent COVID-19 case counts and continued travel restrictions.

There are stocks capable of doubling in value next year, but Air Canada is a low probability bet.

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