



WARNING! Air Canada (TSX:AC) Stock Crash Is Inevitable

Description

Shares of **Air Canada** ([TSX:AC](#)) — the Canadian flag carrier — have seen a sharp rally in the last couple of months. The stock ended November with a 68% rise — outperforming the key Canadian indexes by a wide margin. In comparison, the **S&P/TSX Composite Index** posted 10.3% gains last month.

The ongoing recovery in Air Canada stock appears to be unstoppable at the moment as it has already inched up by 7% month-to-date as of December 10. During the same period, the index rose by 2.3%. A bigger question, however, is why. Let's find out.

Insane recovery in Air Canada stock

As I [noted](#) in one of my recent articles, Air Canada's big worries about a sharp fundamental recovery are still intact. The airline is continuing to burn a big amount of cash each quarter.

For example, it lost around \$1.3 billion in the third quarter this year compared to \$613 million in profit in the same quarter of 2019. In the September quarter, Air Canada posted its biggest quarterly losses of the COVID phase so far and missed analysts' estimates by the largest margin in years.

Its bottom line was nearly 78% worse than Bay Street analysts' consensus expectation of a \$719 million loss in Q3. So, its fundamentals can't certainly be the reason for Air Canada's insane recent stock price recovery.

Terrible fundamentals

While Air Canada has revenue slightly [improved](#) on a sequential basis to \$757 million in Q3 from \$527 million in the previous quarter. It was still 28% lower from analysts' expectations and 86% lower on a year-over-year basis.

If you think that the airline's management expects a magical recovery in its fundamentals in the

ongoing quarter, you're wrong. In its Q3 2020 earnings conference call, Air Canada Executive VP and Chief Commercial Officer Lucie Guillemette [noted](#) that the company doesn't "expect a significant increase in transborder travel throughout the remainder of the year." The United States market is "a key component of our recovery and our long-term strategy," he added. We should remember that the U.S. is still badly struggling with the pandemic — partly because of the Trump administration's mismanagement.

Investors' overconfidence

The recent positive developments related to the COVID-19 vaccine has seemingly made Air Canada investors overconfident about a fundamental recovery. While it certainly is a piece of great news for all businesses across industries and sectors, the airline industry might not have much to celebrate — at least not at the moment.

I believe it might take years for business class international travel to reach pre-COVID levels. Notably, business class international travel is one of the most lucrative segments for the airline industry. So, a recovery in the segment is critical for airlines — including Air Canada — to return to profitability.

A crash could be inevitable

Air Canada stock has been one of my favourite investment options in the last couple of years, it certainly isn't right now. While making investment decisions, we must come to terms with reality. If we don't change our views based on the dynamic investment environment, we might have to pay by losing most of our invested money.

The recent rally in Air Canada stock isn't backed by fundamentals, as I explained above. That's why I see an inevitable crash in its stock in the coming months.

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