Air Canada Stock: Should You Buy Airline Shares Now?

Description

Air Canada (TSX:AC) soared on positive vaccine news in November. The share price gave back some of the gains over the past two weeks, and investors want to know if Air Canada stock is now a buy on the pullback.

Vaccine impact on Air Canada stock

Canada, the United States, and the U.K. have begun the process of providing people with COVID vaccines. In Canada, the government hopes to immunize 8% of the population by the end of March. Another statement recently said anyone who wants the vaccine should be able to get it by September.

Assuming all goes according to plan, travel restrictions should start to ease in the second half of 2021. This would help Air Canada open up routes and begin the process of rebuilding capacity.

The next few months, however, look a bit rough. The second COVID wave is forcing new lockdowns in major economies. This will disrupt the recovery in domestic travel. People are not going to fly across the country for work or pleasure if they are forced to quarantine for two weeks. They might also have to quarantine another two weeks when they return, so the situation for most isn't practical.

In the meantime, Air Canada and other airlines continue to lose money. In the Q3 2020 results, Air Canada reported a revenue drop of 86% compared to Q3 2019. The company sped up its plan to retire 79 planes.

Capacity dropped 81.7% in Q3 compared to 2019. Air Canada anticipated 75% reduction for Q4, but investors should brace for worse numbers due to the surge in COVID cases in the past few months. The company also projected net cash burn in Q4 of $1.1-1.3 billion. That's higher than the Q3 net cash burn of $818 million, which came in better than expected.

As of September 30, Air Canada had $8.2 billion in unrestricted liquidity. This means it should have adequate cash to get through 2021.

Impact of government aid on Air Canada stock

Air Canada is in negotiations with the Canadian government on a bailout plan. The IATA says global governments have provide US$173 billion in financial support to airlines and urges Canada to do the same for Air Canada and its competitors.

A deal will come, but investors need to watch out for the fine print. Requirements to refund cancelled tickets are expected. In addition, commitments to reduce carbon emissions might be part of an agreement. This could potentially add costs and reduce profitability in the coming years.

Travel outlook

Vacation travellers will likely return quickly once vaccines are widespread. Based on government predictions, flight booking should start to ramp up in the summer and take off in 2022.

Business travel, however, might not bounce back for some time. In fact, analysts wonder if business-class seats already saw their peak demand. The pandemic forced companies around the globe to conduct business using virtual meeting platforms. The shift to online meetings could remain in place. Flights and hotels are expensive and travel across the country or around the world uses up valuable time that could be spent on other activities.

Business travel won’t disappear, but demand for the lucrative seats in the front of the plane might not return to previous levels. These high-margin tickets provide a significant amount of profit for Air Canada and other airlines, so there is a risk that earnings could be tight in the new normal.

Rising oil prices could also drive up fuel costs. This would lead to higher ticket prices that could hit demand for air travel.

Should you buy Air Canada stock now?

Air Canada trades near $23 per share at the time of writing. That’s down from the $27.50 it hit in early December, but still way above the $15 sold for at the start of November. With all the uncertainty in the coming weeks and months, it makes sense to be cautious.

Air Canada will recover, but the stock appears overbought right now. Investors might want to wait until the pullback runs its course before adding Air Canada stock to their portfolios.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing

Date
2025/09/13
Date Created
2020/12/21
Author
aswalker