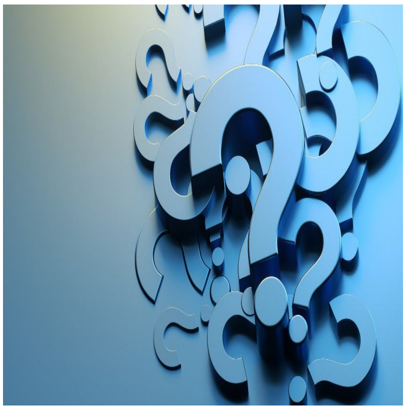

Air Canada Stock: Worth the Discount?

Description

Since the start of the pandemic, one of the worst impacted stocks has been **Air Canada** (TSX:AC). By the end of March, Air Canada had lost more than two-thirds of the value its shares had to start the year.

This insane discount hasn't gone unnoticed, however. In fact, "Air Canada stock" was one of the top three news searches on Google this year, behind only "coronavirus" and "CERB."

With so many investors taking note of Air Canada's discount, you may be wondering why the stock hasn't done all that much this year. Sure, in the last six weeks the stock has gained 45% since the first news of the vaccine. However, for the year, Air Canada remains down by more than 50%. And in the last two weeks, the stock has been losing more ground.

While this may be surprising to some investors, it's actually easily understandable. It shows that investors don't think the risk is worth an investment just yet.

Despite vaccines that are already going into the arms of Canadians, there is still a tonne of uncertainty with Air Canada and its operations, which is why a lot of investors aren't bothering to invest in the struggling airline.

If you're still considering an investment in Air Canada despite all this, here's what you need to know.

Air Canada stock: still not worth the discount

Today, Air Canada stock is still not worth an investment for two reasons. The discount is not that great, and the risk is too high.

Suppose the stock sold off more, then compared to the risk, it could become more attractive. At the same time, as more developments are made on the vaccination front, and we move toward easing restrictions and lockdowns, the uncertainty and risk of Air Canada will decline.

You may be wondering what the risk is with vaccines already being rolled out. However, things are dire in the airline industry at the moment. For example, Air Canada is now cancelling flights to the U.K. due to the uncertainty of the new strain of virus. With issues like these, it could be a while before we get back to normal.

When talking about getting back to normal, for shareholders, that isn't just getting back to 2109 level capacity. Shareholders who are buying the stock expect its share price to fully recover.

However, because of the damage to Air Canada, there will be long-lasting effects. For starters, the amount of shares the company has issued through the pandemic has diluted shareholders. So Air Canada will actually have to have a higher total market cap for investors to see a $50 stock price again.

Furthermore, with all the increased debt it's taken on, Air Canada's interest expenses will be considerably higher. This means the company will have to earn more revenue to earn the same level of income as it did before the pandemic.

So even though it's extremely likely Air Canada will survive, and there's almost no chance of the company going bankrupt, that doesn't mean it's going to be a great investment and offer investors a tonne of recovery potential.

Air Canada today

As bad as things have been, even with the vaccine being rolled out, the situation is actually getting worse for Air Canada at the moment.

The second wave of coronavirus is as bad as or worse than anyone could have expected. This has had a bigger impact on Air Canada and its stock than it had planned for. That impact caused the company to reissue its guidance for the quarter.

It now says it will burn between $14 million to $16 million of cash every single day throughout the pandemic, up from $12 to $14 million it was expecting just a little over a month ago.

Furthermore, it also just issued more shares to raise cash, showing just how tight a spot the company is in.

Bottom line

While the discount looks attractive, there is just so much risk with Air Canada, it's not worth an investment at the moment. Any time a company is raising cash and diluting shareholders just to survive is a bad sign. And while I don't think that Air Canada will go to $0, I wouldn't rush to buy the stock.

CATEGORY

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