



Should You Buy Air Canada (TSX:AC) in 2021?

Description

Air Canada ([TSX:AC](#)) is one of the most conflicting investment options on the market right now. On one hand, Air Canada has been a stellar investment going back well over a decade. Impressive business decisions by management combined with a renewed pride and enthusiasm for the flag carrier propelled it to new highs. That growth spurt came to a screeching halt when the COVID-19 pandemic began. Now that vaccinations beginning, this raises the question as to whether it is a good time to buy Air Canada now or even in 2021.

Let's try to answer that question.

Air Canada has problems

The pandemic has effectively muted nearly all demand for air travel. This is especially true for long-haul international routes that provided Air Canada with a good chunk of its revenue.

To illustrate how dire the situation is, let's look at Air Canada's third-quarter results announced back in November.

During that quarter, Air Canada saw the number of passengers drop a whopping 88% due to the pandemic. Overall, the airline reported \$757 million in revenue, reflecting a drop in \$4,773 billion, or 86% over the prior period.

As a result of those weakened numbers, Air Canada reported a negative EBITDA of \$554 million. By way of comparison, in the same quarter last year, Air Canada reported EBITDA of \$1.472 billion. That hardly seems like a reason to buy Air Canada.

Since the pandemic began, Air Canada was forced to eliminate 20,000 jobs and reducing capacity on over 80% of the company's flights. The efforts are part of a long-term mitigation plan that has already raised \$6 billion in liquidity to wait for the long-awaited recovery.

Air Canada has potential too

There's not much Air Canada can do to get out of its current pandemic-induced predicament. Eventually, vaccines will be administered, travel will resume, and Air Canada will return to its profitable ways.

A recent bump on the stock now has it trading down less than 10% in 2020. Over the trailing three months, Air Canada is up over 40%. That's a phenomenal improvement, and some see this as the beginning of a prolonged recovery.

Should you buy Air Canada?

Air Canada, like the bulk of the market, remains a risky investment option. Air Canada's long-term success hinges on herd immunity being reached. Only then will markets truly open to travel. Fortunately, vaccinations have begun to be administered on a near-global basis. But [how long will it take](#) to inoculate the entire planet?

The best guess by experts is that we might not be close to that level until at least next fall. As a prospective investor of Air Canada, another [year of volatility](#) hinging on the hope of vaccinations might be a tall order. To put it another way, there's little reason to doubt Air Canada's ability to recover from this crisis. It's just that there are far better investments to make *right now* that will carry considerably less risk. So, hold off on that urge to buy Air Canada, at least for now.

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