Air Canada (TSX:AC): This News Will Hurt the Stock

### Description

**Air Canada** (TSX:AC) got some bad news this week. It should be enough to pressure the stock for several weeks to come, if not months.

But with this bad news comes a light at the end of the tunnel. Could 2021 finally be the year to buy?



## This news is terrible

Since the COVID-19 crisis first began, Air Canada executives have blamed the government for their troubles.

"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," Air Canada CEO Calin Rovinescu said.

"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."

Today, demand is still 90% lower than 2019. If the company believes travel restrictions are to blame, recent news out of Ottawa should have them screaming.

"The government of Canada will begin requiring visitors arriving by air to provide a negative COVID-19 test," reported *Travel Pulse*. "Senior government officials in the Justin Trudeau government said all passengers on flights coming into Canada will have to present a negative PCR test taken within three days of their arrival. The move could come into effect in a few days."

This should remind investors about the risks associated with airline stocks. A global pandemic and government restrictions rule the game right now. But is that all about to change?

# Time to buy Air Canada stock?

Baron Rothschild once quipped that the time to buy is when there's blood in the streets. When it comes to airline stocks, the crime scene is very messy. Several global carriers have already gone bankrupt.

Despite a recent surge, Air Canada stock remains 50% below its pre-pandemic highs. The latest travel restrictions will help keep a lid on the share price, but could shares be a buy for risk-tolerant investors?

It's not hard to understand what needs to happen for the stock to double in value back to its former highs. The only catalyst that will push shares that high would be a complete return to normal.

In fact, it would take even more than that considering the company is now bloated with billions of dollars in additional debt, not to mention significantly more shares due to dilution.

A "return to normal" would therefore lead to gains somewhere between 30% and 70% — still commendable, but nothing earth shattering.

What about the downside? It's very clear that shares could potentially go all the way to zero. Air Canada is losing millions of dollars per day. In 2020, it should lose around $4 billion. Most analysts anticipate another loss in 2021, albeit much smaller.



# How to invest

Air Canada stock is only for the most intrepid investors. You could get completely wiped out by betting on this company, and the 30% to 70% potential upside isn't enough to lure most of us.

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**Date**
2025/08/25
**Date Created**
2021/01/03
**Author**
rvanzo