Air Canada (TSX:AC): A Terrible Stock to Buy in 2021

Description

Air Canada (TSX:AC) stock has started 2021 on a mixed note after losing more than 50% in last year. The airline is continuing to face difficulties, as rising COVID-19 infections across Canada and the new coronavirus strain have fueled fears about more air travel restrictions.

Air Canada stock rose by 68% in November. But it couldn't maintain the same positive momentum in December, as it fell by about 8% for the month. While 2020 has passed, Air Canada's worries might continue to haunt its investors this year as well. Let's find out why it still is a terrible stock to buy in 2021.

Air Canada's endless worries

Air Canada's worries started slightly less than a year ago when the coronavirus started spreading outside China. The World Health Organisation had to declare it a global pandemic. Many countries across the world took strict measures to control the virus by restricting non-essential travel. These measures delivered a massive blow to the airline industry. That's why Air Canada stock lost two-thirds of its market value in the first quarter of 2020. The stock tanked by 67.5% for the quarter.

In November, many considered positive updates related to the COVID-19 vaccine a big ray of hope for airlines. However, the rising daily infections and a newly found coronavirus variant in the United Kingdom caused panic among investors in December. These factors triggered another sell-off in Air Canada stock in the first half of the last month.

Dark clouds on business travel's future

I don't consider fears of more restrictions on non-essential travel extremely problematic, as they might not last very long — especially after multiple vaccines roll out. But an expected significant decline in business air travel could be devastating for airlines, including Air Canada.

Many experts predict at least a 36% permanent decline in business travel in the post-CVOID world. A massive drop in its demand could be devastating for the industry. And that's one key reason I don't expect Air Canada to be on a financial recovery path in the near future.

Don't expect a financial recovery

In the last couple of quarters, Air Canada's revenue slid by over 85% on a year-over-year basis. The airline's bottom line missed Bay Street analysts' consensus estimates by around 78% in the last quarter as it reported an adjusted net loss of $1.3 billion.

While its revenue may start rising in 2021, a major drop in business air travel would make it extremely difficult for Air Canada to turn profitable. Moreover, it's already offering discounts on bookings to attract more consumers. Such discounts, along with rising operational costs related to COVID-19 measures, would steal its profits — at least throughout 2021. That's another reason I don't expect its stock to recover this year sustainably.

Bottom line

While the year 2020 was terrible for many companies, including Air Canada, many others' shares rallied sharply. I don't see a reason to keep holding Air Canada stock right now with no hopes of a near-term recovery. Many companies that did well last year are expected to continue performing extremely well in 2021, and it could take their stocks to new heights.

If you act now and use your locked-in money (in Air Canada stock) to invest in other great cheap stocks, you could expect some handsome returns this year.

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