Air Canada (TSX:AC) Is Cancelling Routes Again

Description

In recent months, investors have been optimistic about **Air Canada** (TSX:AC) stock, sending it soaring in the market. Since November 2, AC has risen 52%. While it was up more than that at one point, it gave up some of its gains this week.

Air Canada's ascent began when **Pfizer** announced its vaccine. Shortly after that, AC rallied, rising 50% in under a month–probably because investors expected a swift end to the pandemic.

Apparently that expectation was wrong. Just recently, Air Canada announced several new route cancellations, impacting multiple cities. Showing that travel is definitely not "bouncing back," these cancellations call into question the bullish thesis on AC stock. In this article, I'll explore these cancellations and what they mean for investors.

Some routes that have been cancelled

Among the routes Air Canada cancelled recently were:

- Passenger service to Yellowknife and Labrador
- St. John's to Toronto flights
- All service to the Fredericton airport

These are just a few of the routes Air Canada has cut in the past year. In the month of September, Canada's airlines cut more than 100 routes combined. In June alone, Air Canada suspended service to eight cities and cut 30 regional routes.

These developments were well known at the time, and were expected. The more *recent* cuts, on the other hand, may have been a bit more of a surprise — at least to AC bulls. Given the fact that AC's rally correlated almost perfectly with Pfizer's vaccine announcement, investors were likely expecting a swift end to the pandemic. However, it now appears that a swift end is not in sight.

Not only is demand for travel still low, but new flight routes are being cut for the first time ever! In the meantime, Ontario is entering its strictest lockdown since March, and Quebec is now under a curfew. None of this is bullish for travel to put it mildly.

Why this is bad news

Air Canada's route cuts are bad news for investors. There are several reasons why:

1. They suggest that demand for travel remains weak.
2. They show that Air Canada is still in "cost-cutting" mode rather than growth mode.
3. Ultimately they suggest that Air Canada's sustained cash bleed and long-term financial problems are still real issues.

None of these are good things for Air Canada. Broadly, they point toward a company that's still struggling to make ends meet and may become insolvent. Bankruptcy and bailouts have both been seriously talked about in the context of Air Canada's recent woes. Now, they're looking more likely than ever.

One possible benefit

As a parting note, there is *one* positive thing about Air Canada's route cutting that should be mentioned:

It should genuinely help the company reduce its costs. Airlines have enormous fixed costs like interest expenses and airport fees that have to be paid no matter what. In light of this, the more variable costs they can get rid of, the more likely they are to survive a period of depressed revenue.

In the long run, the route cutting won't save Air Canada. But it could help it limp along long enough to come out of the pandemic in one piece.

CATEGORY

1. Investing
2. Tech Stocks

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
2. Tech Stocks

Date
2025/09/13
Date Created
2021/01/13
Author
andrewbutton