



## Air Canada Stock: Is the Share Price Too High?

### Description

**Air Canada** ([TSX:AC](#)) continues to burn through cash, eliminate routes, and cut staff. The share price, meanwhile, is up more than 50% since early November. Is Air Canada stock a buy now?

### COVID headwinds for Air Canada stock

Canada, the U.K., mainland Europe, the United States, Latin America, and the Caribbean are all battling severe second COVID-19 waves. These are major markets for Air Canada.

The Canadian government just put new measures in place requiring all air travellers to present a negative COVID-19 test within the past 72 hours before boarding the plane. At the same time, quarantine measures remain for inter-provincial and international travel.

New COVID variants in the U.K. and South Africa sparked tighter travel restrictions in the past few weeks.

As a result, Air Canada and its peers won't see capacity rebound as quickly as hoped in 2021.

### Government bailout impact on Air Canada stock

Air Canada is in negotiations with the Canadian government for financial aid beyond the existing programs. Sector-specific assistance is a tricky situation for the government. If Air Canada and other airlines get special help, many other industries, including [oil producers](#), will want similar help.

Airlines around the globe received at least US\$160 billion from governments in 2020, according to the International Air Transport Association (IATA). In November, the group's director general said an additional US\$70-80 billion will be required. The IATA's chief economist highlighted the [challenging outlook](#) for airlines over the next six months in a January 12th presentation.

Aid comes in different forms. Much of the assistance to date is in the form of debt. That poses a

problem down the road if it isn't forgiven. In some situations, governments took or increased equity positions in the airlines. Investors get nervous when government has influence on how airlines are operated.

The outcome for Air Canada remains unknown, but pundits anticipate the government will want tickets refunded as part of any agreement. Air Canada's Q3 2020 report showed it had more than \$2 billion in ticket revenue on the books. The company has ample liquidity to give customers refunds, but it would put pressure on the cash position. Air Canada expected to see net cash burn of at least \$1 billion in Q4 2020.

Analysts think commitments to meet carbon reduction targets might also be part of a deal. Another potential condition could be a requirement to follow through on [cancelled airplane orders](#) for A220 jets made in Canada.

The prime minister just shuffled his cabinet, including the position of transport minister. Airline negotiations began with Marc Garneau two months ago. Garneau moved to foreign affairs. Omar Alhabra is the new transport minister.

## Travel outlook after the pandemic

News of positive vaccine trials initially sparked the rally in Air Canada stock through November. The Canadian government says anyone who wants a vaccine will get it by the end of September. Vacation travel should rebound quickly once governments lift travel restrictions.

Business travel is a wildcard. Companies realized during the pandemic that they can get business done without sending executives and employees on expensive flights. The long-term impact is yet to be seen, but business class seats are very profitable for airlines. If the segment never recovers, investors in Air Canada stock should anticipate smaller profits per flight.

## The bottom line

Air Canada will survive, but the stock price might be expensive today given the near-term challenges and uncertain outcome on negotiations with the government. Rising fuel costs pose another threat and the broader equity markets are due for a meaningful correction.

I would avoid Air Canada stock at the current level and look for other opportunities in the market today.

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## **Date**

2025/09/13

## **Date Created**

2021/01/15

## **Author**

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