



## I'll Pass on Air Canada (TSX:AC): You Should, Too

### Description

Despite 2020 finally coming to an end, a recovery at **Air Canada** ([TSX:AC](#)) will drag on well beyond 2021. What this means for investors is that it might not be the best time to invest in Air Canada. Here's a look at why I'll pass on Air Canada and why perhaps you should, too.

### Air Canada has massive problems

To be clear, the problems at Air Canada started well before the COVID-19 pandemic. In the months prior to the pandemic (which seems like a lifetime ago), Air Canada was grappling with the impact of grounding its 737 MAX fleet.

Air Canada's 737 MAX fleet has been grounded since March of 2019. Transport Canada followed in the footsteps of the U.S. FAA, validating the changes implemented to prevent the aircraft from nosediving. A tentative return-to-flight date in February was recently noted, but that could change. Until then, the airline's fleet will remain grounded.

Turning to the pandemic, Air Canada's problems continue to compound. Negative COVID-19 tests are now pre-requisites for boarding flights in Canada. The vaccine rollout has been much slower than anticipated, even trailing the much-criticized U.S. rollout. This makes the prospects of a quick turnaround for Air Canada in 2021 much less likely.

Adding to those woes, a much deadlier strain of the coronavirus is making its way around the globe. The U.K. and South Africa both identified a new strain. Even worse, the efficacy of the slow-moving vaccine on these new strains is still undetermined.

In other words, returning to some semblance of normal, at least in the context of travel, seems at least a year out, possibly more.

For Air Canada, this means that the airline needs to buckle down and survive. That survival means drastically slashing costs, routes, and laying off workers.

In case you're wondering how bad things are, in the most recent quarter, Air Canada reported an operating loss of \$785 million. This was reflective of a whopping 88% drop in passenger revenue. By way of comparison, in the same quarter last year, Air Canada reported an operating income of \$956 million.

## Does Air Canada have potential?

Yes. Air Canada does have potential. The airline has a great management team that helped propel the airline to new highs. Given the right set of circumstances, there's no doubting that Air Canada will recover and become profitable again.

Unfortunately, that potential will only be unlocked once the current pandemic is over, which means inoculating the entire planet (or at least where Air Canada flies). Even then, local and state governments will need to reinstate currently restricted travel regulations. Once we can fly, there's no telling what demand will be like following this extended pandemic-induced hiatus.

In other words, a return to normal is unlikely to happen anytime soon and more than likely not happening this year.

## I'll pass on Air Canada. Will you?

In my opinion, Air Canada is a solid investment option — just not during a pandemic. Long-term investors that grabbed Air Canada at a discounted rate last year have already seen some growth but should not see Air Canada's pre-pandemic price as a target anytime soon. Instead, a better option may be to look at other, more defensive options that also offer some [income-earning potential](#).

I'll pass on Air Canada, at least for the moment, and [look elsewhere](#).

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