Is Another Crash Coming for Air Canada (TSX:AC) Stock?

Description

So, you thought 2021 would offer some breathing space for **Air Canada** (TSX:AC) stock. But the year has only brought more hurdles. The biggest challenge has been the stringent air travel restrictions, and they just got worst. It has gotten so bad that AC has reduced its capacity by another 25% in the first quarter.

In June 2020, AC slashed 20,000 employees (50% workforce), retired 75 planes, and suspended 30 domestic routes and eight stations until further notice. After six months, the airline is making more cuts. This month, it suspended services to more than six domestic routes and slashed 1,700 jobs and another 200 employees at its Express carriers. The culprit is Canada's travel restrictions.

Air Canada frustrated with Canada's air travel restrictions

Since March 21, Canada has had a blanket prohibition on foreign travelers coming to Canada. Canadians and residents returning to Canada have to undergo a mandatory 14-day quarantine. AC initiated voluntary COVID-19 testing for all arriving passengers to force the Justin Trudeau government to ease the quarantine requirement for passengers testing negative.

The government even agreed to the testing. But then came the second wave of mutant virus, and Canada made its already stringent requirements more stringent. Starting January 7, all travelers over five years of age flying to Canada from abroad need to get a negative result on the COVID-19 test taken 72 hours before the scheduled departure.

Now, AC proposed to replace the quarantine requirement with COVID-19 testing. But the proposal backfired. Now all travelers from abroad have to present negative test results and also fulfill the 14-day quarantine requirement.

There was confusion around which diagnostic companies' test results the government would consider. Then even if you get the test done, there is a possibility that the airline might cancel the flight. All this hassle had an immediate impact on AC's close-in bookings, thereby forcing it to adjust its routes to the expected demand and slow the cash burn.

Air travel in 2021 could be worse than in 2020

AC has reduced its capacity by another 25% to adjust its supply to the demand. Its new operating capacity is just 20% of its capacity in the first quarter of 2019. These route cuts will have a long-term impact, as it will take time to rebuild air access to these regions.

The Atlantic Canada Airports Association executive director Monette Pasher said, "We cannot just flip a switch to turn air service back on when we get to the other side of this pandemic."

Regina Airport Authority CEO James Bogusz said, "If we lose the summer in terms of not having Canadians travel within our own country, it's going to be worse than we had in 2020 because you can't have two years in a row where nobody's making any money."

What's next for Air Canada stock?

Despite the new travel restrictions and route cuts, Air Canada stock continued to hover above the $22 price. You might ask if another crash is coming for AC stock. I would say yes. February is an important month for AC, as it will release its fourth-quarter results, and CEO Calin Rovinescu will hand over the operations to Michael Rousseau.

AC managed to contain a third-quarter loss at $685 million, because the fuel expense was low, and it saw an uptick in domestic demand. But that won't be the case in the fourth quarter. AC's loss could widen in the fourth quarter as oil prices surged. It reduced some routes and raised $850 million in equity capital to stay afloat and slow the cash burn.

The Justin Trudeau government has also kept the bailout talks hanging, with no clarity. I fear that AC stock could fall to $20 or below after the fourth-quarter earnings. I would suggest you adopt a wait-and-watch approach. Don't buy into the stock now at the $22 price, as even this price may be high without a bailout.

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Date
2025/09/13
Date Created
2021/01/18
Author
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