Is Air Canada (TSX:AC) Stock a Buy at the Current Price Levels?

Description

I have said this before and would reiterate that **Air Canada** (TSX:AC) stock could deliver higher returns for investors willing to stay invested until the market returns to normal.

The year started on a rough patch for Air Canada, as the coronavirus's continued spread led to travel restrictions and provincial lockdowns. Air Canada announced further capacity cuts and workforce reductions.

Air Canada said that it would be reducing its planned capacity by an additional 25% for Q1 2021, implying that it would now operate at a capacity which is about 20% of the prior-year period. Also, Air Canada said that it would reduce its workforce by 1,700 employees.

Despite the discouragement, I believe the worst is over for Air Canada. The progress on the vaccine front and gradual improvement in demand could help the company significantly reduce the cash burn and turn cash flow positive by the end of the year.

Challenges persist

Travel restrictions and massive erosion in demand took a toll on Air Canada. Subdued passenger demand led to a 66% decline in its top line during the first nine months of 2020. Meanwhile, it reported a net loss of $3.5 billion during the same period.

Notably, Air Canada is likely to struggle in the near term, as deep capacity cuts, lower bookings, and lockdowns in many regions are likely to result in higher cash burn and continued losses. The company projects its net cash burn for Q4 2020 to be in the range of $1.1 billion to $1.3 billion, which is significantly higher than the net cash burn of $818 million reported during the third quarter.

Also, higher interest expense on account of increased debt is a concern. Air Canada's net debt stood at about $5 billion at the end of Q3 (September 30, 2020) compared to $2.8 billion at the end of 2019.

Why I’m bullish

Despite the challenging near-term outlook, I believe the downside in Air Canada stock remains capped. Further, large-scale vaccine distribution across the world, especially in the second half of the year, is likely to drive positive passenger sentiment and significantly boost airline stocks.

While demand is likely to trend higher in 2021, Air Canada’s lower cost base is expected to cushion its bottom line and, in turn, its stock. The company announced drastic cost-reduction measures across the company and significantly lowered its variable and fixed expenses. Its focus on fleet restructuring by permanently retiring 79 older aircraft is likely to streamline costs and reduce its carbon footprint.

Moreover, Air Canada’s growing focus on the air cargo business is a positive development. The cargo business has become a key catalyst for growth and is likely to be a key revenue driver. Air Canada is converting two of its passenger aircraft into freighter to capture the growing opportunities in the air cargo market.

Final thoughts

I believe Air Canada stock could deliver stellar returns, as the company is likely to witness a surge in demand once the coronavirus vaccine is widely available in the second half of the year. Meanwhile, growth opportunities in the cargo business further strengthen my bullish view on the stock.

Air Canada stock has lost over 56% of its value in one year and looks attractive at the current price levels.

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