



Air Canada (TSX:AC): The Worst Stock of 2021?

Description

Air Canada ([TSX:AC](#)) was one of the worst stocks of 2020. Shares lost roughly 50% of their value.

Most of this value destruction came during the first few months of the year as the coronavirus pandemic swept the globe. Air traffic fell off a cliff, and many wondered if the industry would survive.

At the start of 2021, Air Canada is still alive. The company is hemorrhaging cash, but the share price remains well above zero.

Only one question remains: where is the stock headed throughout the rest of 2021?

These numbers are critical

At the end of the day, businesses are a set of numbers. If those numbers don't line up, survival is impossible.

In 2020, Air Canada lost somewhere between \$3 billion and \$4 billion. Those figures are clearly unsustainable. The firm's total market cap of \$7.5 billion puts everything into context.

No company can generate losses forever. The clock is ticking. But exactly how much time is left?

Right now, Air Canada has roughly \$8 billion in total liquidity remaining. If the business continues to lose nearly \$1 billion per quarter, as it did in 2020, the rug could be pulled out from underneath it fairly quickly.

Of course, the company could continue to raise more cash. Since the pandemic began, Air Canada sourced \$6 billion in new liquidity through stock and debt issuances, but also by selling planes and leasing them back. Nearly \$1 billion of that new liquidity was [raised](#) in December alone.

So far, the market has played nice, trusting that the current crisis is a temporary phenomenon. But is it?

Can you trust Air Canada stock?

It's reasonable to expect air traffic demand to surge this year, but it's not like the bar is very high. This summer, demand was only 5% of 2019 levels. Today, that figure has improved to just 10%. Passenger traffic could *quadruple* and still be 60% lower than normal.

The important thing to understand is that there's almost no chance Air Canada posts a profit in 2021. It may surprise in a single quarter, but for the year as a whole, the odds are stacked against it. Just look at history.

For decades, experts like Warren Buffett refused to invest in airlines. There were too many planes chasing too few passengers. Capacity utilization needs to be well above 90% for sustainable profits to emerge.

Demand collapsed for Air Canada in 2020, but it still owned the same number of planes. Those planes won't evaporate in 2021. So we have the same amount of supply, yet demand should remain well below 2019 levels. History tells us that profits will be all but impossible this year.

Bottom line

Investing in airlines like Air Canada right now is a confidence game. How long will the market continue to subsidize losses? Investors held the bag in 2020, and early indications suggest they'll do the same in 2021, but continued losses could pressure this fragile dynamic.

Will Air Canada stock be the market's worst performer of 2021? There's considerable uncertainty here, but there's no denying that it's an uphill battle. I'm not trusting the company with my money.

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Date

2025/08/25

Date Created

2021/01/22

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