Why New U.S. Travel Rules Could Hammer Air Canada Stock

Description

New rules for travel to the United States could send Air Canada stock back to the levels seen before the November 2020 rally.

Will new U.S. travel rules impact Air Canada stock?

The United States just issued new restrictions on air travel from other countries. Effective January 26, all visitors to the United States above the age of two must present a negative COVID-19 test taken within three days in order to board the plane.

The United States continues to struggle with surging COVID-19 cases, and the government wants to minimize the arrival of new COVID-19 variants.

Air Canada (TSX:AC) relies heavily on U.S. routes. Business travellers and snowbirds make up a good chunk of the market. The new restrictions spell trouble for bookings.

Canada put similar restrictions in place on January 7, with anyone over the age of five required to show a negative COVID-19 test within the past 72 hours. Since then, people cancelled more than 50,000 flight reservations, according to a recent Transport Canada update.

The addition of the U.S. travel restriction makes an already disastrous situation for Air Canada even worse.

Bailout risks for Air Canada stock

Air Canada and its peers started bailout negotiations with the Canadian government in November. Investors might be propping up the stock on the hopes of a positive outcome to the talks.

According to the IATA, global governments provided close to US$160 billion in financial aid to airlines last year. The IATA says an additional US$80 billion might be required in 2021.

Assistance takes many forms and comes with different terms. Air Canada might be required to refund ticket revenue being held for cancelled flights. That would put a big dent in the company's liquidity, although Air Canada is in better shape than many competitors due to quick moves by management early in the pandemic to raise capital.

Protection of unprofitable routes to regional communities will likely be part of a deal. Air Canada continues to eliminate flights to smaller cities in an effort to slow its cash burn. The company announced an additional 1,700 job cuts in recent days as a result of additional route reductions. Air Canada slashed headcount by roughly 20,000 last June.

Commitments on carbon emissions might also be on the table, so investors have a lot to consider. In short, it would be a good idea to read the fine print before buying Air Canada stock on any eventual news of a government bailout. Shareholder interests might not be high on the government's priority list.

Is Air Canada stock a buy?

Air Canada is a good company, and the $8 billion in liquidity it had at the end of September should enable it to get through the worst part of 2021. Vaccines continue to roll out and travel restrictions will eventually ease.

In the near term, however, the stock appears overbought at $22 per share. The airline is bleeding roughly $1 billion in cash per quarter based on the company's Q4 estimate. Higher oil prices risk driving up fuel costs, making the situation worse.

Initial stats on flight cancellations due to the new travel rules don't bode well for 2021 capacity numbers. If bailout talks fail, or the terms of an agreement are unfavourable to shareholders, Air Canada stock could easily give back all the gains it racked up since early November.

Given the current uncertainty and risks, I would look for other cheap stocks in the market today.

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aswalker