Why I'm Not Betting on an Air Canada (TSX:AC) Stock Recovery in 2021

Description

Air Canada (TSX:AC) has been one of my favourite stocks for a long. The company has made remarkable financial progress in the last few years. However, many things changed for the largest Canadian airline slightly less than a year ago. COVID-19 shook the world and forced many countries to impose strict restrictions on non-essential businesses and air travel. These restrictions turned out to be disastrous for many industries, including the airlines.

Air Canada's continued worries

These factors changed my opinion about the future of Air Canada and the airline industry in general. Air Canada is preparing to resume Boing 737 MAX commercial operations on select domestic routes from the next week. However, these operations would offer very little hope as far as the airline's overall financial recovery is concerned.

Air Canada has been burning big piles of cash with each passing day in the last few quarters. In the first quarter last year, it lost around $392 million. These losses more than doubled in the next quarter and crossed the $1 billion mark. The turmoil continued in the third quarter, as it burnt another $1.3 billion.

The future is likely to be dark

I trust that Air Canada's operations will improve in the coming quarters as the COVID-19 woes subside. However, its financials might not go back to normal for many years. The pandemic has significantly changed the way people work, live, and travel. While leisure travel may continue to be in demand in the coming years, the airline industry still may suffer due to a massive drop in business travel demand.

Many experts have already warned that business travel would see a major permanent decline. Notably, business travel is one of the most profitable segments for the airline industry. Without it, airlines — including Air Canada — would face financial difficulties and their profit margins would remain low.

Don't miss other opportunities

While you might not do much to fix Air Canada's ongoing troubles, you still have an important choice to make. Instead of waiting for its stock recovery for months, you could invest the same money in other growth stocks that could help it multiply much faster than you think — with fewer risks.

For example, the Aurora-based mobility company **Magna International** (TSX:MG)(NYSE:MGA) could be one such great growth stock to buy right now. The company has increased its focus on rising EV (electric vehicle) and autonomous vehicle demand in the last year. In line with this strategy, Magna recently announced a new joint venture with the South Korean tech giant **LG Electronics**.

The United States, Austria, Canada, Germany, and Mexico are the five largest markets for Magna based on its revenue. The company is also making efforts to expand its presence in China. These steps could lead to its exponential financial growth in the coming years. While its earnings fell in 2020 due to the pandemic-related headwinds, Bay Street analysts expect its earnings to more than double in 2021.

Foolish takeaway

While Air Canada used to be a good investment option before 2020, it might not be wise to miss other much better opportunities in expectations of a recovery in its stock price. If you act now, you may get much better returns in other growth stocks than what you expected from Air Canada stock.

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:AC (Air Canada)
3. TSX:MG (Magna International Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Tech Stocks

Date
2025/08/23
Date Created
2021/01/26
Author
jparashar