



## Air Canada Stock: When Should Investors Buy?

### Description

**Air Canada** ([TSX:AC](#)) is down 25% from the December high. Investors who missed the last rally in Air Canada stock want to know when it might be a good time to buy the airline's shares.

### COVID-19 restrictions and Air Canada stock

The recent downturn in Air Canada stock isn't a surprise. Profit taking played a part of the story, and some pundits might think Air Canada is now a [cheap stock](#), given that the stock soared from \$15 to \$27.50 in just four weeks. The vaccine-fueled surge didn't last, however, as rising COVID-19 cases and new variants of the virus have forced additional lockdowns and tighter travel restrictions. At the time of writing, Air Canada trades below \$21 per share.

Canada began new measures on January 7 that require all travelers over the age of five to present a negative COVID-19 test completed within three days before getting on the plane. A recent report indicated roughly [50,000 reservations](#) have been cancelled since the rule went into place. The government is considering even tighter restrictions to keep out new COVID-19 variants that appear to be more contagious.

The United States just implemented its own version of the same restriction targeting any air traveler over the age of two. In addition, the United States is now putting added restrictions on flights from South Africa, Brazil, the U.K. and mainland Europe.

The United States and Europe are major Air Canada destinations, so the new measures will delay the recovery in bookings.

When the new measures will expire is anyone's guess, but it could be the end of the summer. If that turns out to be the case, Air Canada stock might see additional downside.

### Government bailout risk to shareholders

Air Canada and its Canadian peers started bailout negotiations with the government more than two months ago. The longer the process drags on, the more uncomfortable investors become regarding the possible terms. A recent cabinet shuffle in Ottawa saw the position of transport minister change from Marc Garneau to Omar Alghabra. Depending on the situation before the change, the two sides might have gone back to square one.

Air Canada wants money without strings attached. Analysts say the government will want commitments on ticket refunds for cancelled flights, routes connecting small cities, and possibly even carbon emissions. All of these measures put cash flow or margins at risk at a time when Air Canada continues to bleed cash.

In the Q3 2020 earnings report, Air Canada said it expected Q4 net cash burn to be \$1.1-1.3 billion. That's \$12-14 million per day.

Global airlines received at least US\$160 billion in government aid in 2020 according to the IATA. Air Canada will get help, but the devil lies in the details. As long as the company has adequate liquidity to stay solvent, it will fight for the best bailout terms. Air Canada still had access to \$8 billion in cash at the end of Q3, so there is some breathing room.

## When should you buy Air Canada stock?

COVID-19 vaccinations will eventually lead to a reopening of global air travel. When that happens, Air Canada stock should get a nice lift. That said, the recovery will be slow and most major air carriers don't see capacity getting back to 2019 levels for at least three years.

The next few months look ugly for the airlines and Air Canada's Q1 and Q2 2021 outlooks will be important to watch when the company reports Q4 2020 results. Investors also need to keep an eye on rising [oil prices](#), as this has an impact on fuel costs.

In the near term, it wouldn't be a surprise to see the stock drift back to the \$15 mark. At that point, contrarian investors who are positive on the sector over the long term might want to start nibbling on Air Canada stock.

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