



Vaccine Effect Fades: Will Air Canada (TSX:AC) Stock Dip to \$15?

Description

Air Canada ([TSX:AC](#)) stock fell almost 10% year to date as the second wave of mutant coronavirus reimposed air travel restrictions in Canada, the United States, and Europe. The three regions are major operating markets of AC. In November 2020, AC stock surged over 80% as investors hoped the vaccine will end travel restrictions. But what they didn't factor in was virus mutation.

The one question that every traveller, airline, investor, and the government is asking is how long until the pandemic is over.

Three variants of mutant coronavirus have been spotted in Brazil, South Africa, and the United Kingdom. The only way is to stop the transmission is by wearing masks and social distancing until enough of the population is vaccinated.

Learning about the risk of virus mutation, the governments have no option but to reimpose travel restrictions until their people are vaccinated. Prime Minister Justin Trudeau stated that the government will have vaccine available for everyone by September. If governments fail to control the mutant virus spread, they will be back to the March 2020 scenario where the vaccine effect will fade.

Hence, the travel restrictions could be in place till the end of summer. Don't be surprised if there is another nationwide lockdown.

The vaccine effect has already started fading on Air Canada stock

When the pandemic first broke in March 2020, AC stock fell more than 70% to \$12.15 and traded around \$15 for most of the lockdown time. The stock surged to \$27.5 on [vaccine news](#). But now, the mutant virus has already started showing its impact on AC stock. The vaccine effect is wearing off, and AC stock has declined 27.5% from its pandemic high.

The Canadian government is discouraging non-essential international travel at all possible costs.

Effective [January 7](#), only people who tested negative in the COVID-19 test taken 48 hours before the travel are allowed to enter Canada. Moreover, they have to stay quarantined for 14 days. The Canada Revenue Agency (CRA) will not give recovery benefits to those in quarantine because of foreign travel.

These restrictions proved effective as Canadian airlines saw at least 50,000 flight reservations canceled. AC was left with no choice but to cut more jobs and cancel more routes. Justin Trudeau has warned of more travel restrictions.

As the cycle repeats, AC stock will fall to \$15 once again.

Only the bailout vaccine can save Air Canada

Airlines bear a fixed cost to keep those planes flying. AC's planes haven't seen the skies for almost 10 months, which has made them a liability as they are only burning cash – and it's paying 9% interest on this cash.

What AC needs right now is free cash to stay afloat. A bailout will give AC a low interest, long-term loan that will make cash burn less painful. The government has been in bailout talks with airlines since November 2020, but they have reached no outcome.

A bailout will come with conditions like restarting suspended routes, refunding ticket money, or reducing carbon emission. It's not as if AC stock won't rise. It will surge on bailout and easing of travel restrictions as there is pent up demand. But until then, it needs liquidity.

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