



## Challenges Continue to Mount for Air Canada (TSX:AC) and its Investors

### Description

The flurry of challenges does not seem to stop for **Air Canada** ([TSX:AC](#)). The pandemic bitterly dominated Canada's biggest airline last year. Investors expected the year 2021 would bring something good, but alas! The worries are significantly increasing this year as well.

### Air Canada: Troubles continue in 2021

Continued travel restrictions and slower-than-expected vaccinations are only delaying Air Canada's recovery. To add to the woes, improving oil prices is a new headache for airlines. Fuel costs are one of the largest components of airline companies' expenditure. And oil prices reached yearly highs this week after a consistent increase on higher-demand prospects.

Airline companies like Air Canada could not take advantage of the lower fuel prices last year. Oil prices were significantly lower in mid-2020, but almost all airlines had their fleet grounded back then. Now, when air travel demand is seeing some green shoots, the jet fuel prices are peaking again.

To investors' dismay, Air Canada continued to cut its capacity and workforce recently. It suspended important routes such as Europe, Hawaii, and the Caribbean last month in response to the pandemic. Since last March, Air Canada has cut several routes and released a large portion of its workforce. While the route cutting will help the airline lower its operational expenses, it is underlining the delay in its recovery.

### Air Canada's Q4 2020 earnings

The flag carrier will release its fourth-quarter 2020 earnings next Friday on February 12. It will be interesting to see how the management sees the road ahead for the airline.

There won't be any surprise on the revenues and earnings front. Like the past two quarters, AirCanada might see a big dent on its financials. What will be interesting to watch for is its liquidity position. The airline has been burning significant cash each quarter, but not as much as peers.

Air Canada [burned](#) almost \$9 million per day in the third quarter of 2020, notably improving from around \$16 million per day in the second quarter. This was a remarkable feat, which was highly cheered by investors late last year. If the trend continues in Q4 as well, we might see AC stock riding higher.

Its balance sheet position will be crucial to watch. Air Canada entered the crisis with one of the strongest liquidity positions among its peers. I don't see any bankruptcy concerns with the flag carrier at the moment. And its [decision to go ahead](#) with the **Transat A.T.** deal only highlights that.

## What's next for AC stock?

Air Canada stock is comfortably trading at \$20-\$22 levels for the last few months. Investors must have breathed a sigh of relief after seeing the stock tank below \$10 a year ago. Its Q4 earnings will pave the path for AC stock in the short term.

Investors should note that the stock looks overvalued at the moment. It is trading at a price-to-book value ratio of close to four times, higher than its historical average.

The strong balance sheet is the ultimate strength of Air Canada. If that advantage is coupled with a relatively faster recovery in air travel demand, Air Canada stock will likely chase peaks again.

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