Still No Love for Air Canada (TSX:AC) Investors

Description

The COVID-19 crisis has wrought havoc on nearly every segment of the economy. Some areas have fared worse than others. A prime example of this is airlines, such as **Air Canada** (TSX:AC). In short, the prospect of putting +200 people into a steel pipe with recirculated air is not so appealing during a global pandemic. This means that there will be no love for Air Canada investors this upcoming Valentine's Day.

Will 2021 be 2020, part two?

After the dismal year that Air Canada had in 2020, many investors were optimistic that a resumption of air travel would lead to a resounding recovery for Air Canada in 2021. That view also meant that prospective investors could profit handsomely from buying Air Canada at a discount. Over the course of 2020, that discount amounted to well over 50%.

So far in 2021, Air Canada has remained flat, dropping approximately 4% as of writing. But does that mean that the previously hyped recovery of Air Canada is still going to happen? Let's try to answer that question.

A recovery to pre-pandemic air travel infers that the pandemic comes to an end. That means the entire planet will need to be inoculated or for most of us to have herd immunity. By extension, this also means that the restrictions in place across every local and international jurisdiction need to be lifted. Finally, the slew of new coronavirus variants that were discovered should not be immune to the vaccine.

Considering the slow and inconsistent global response to administering available vaccines, the pandemic could be here for a while still. By best estimates, that would mean a pre-pandemic comfort level for air travel may not return until well into 2022. If the vaccines prove to have a reduced efficacy on the new strains, it could take longer.

What can Air Canada do?

Survival is the key phrase for Air Canada's immediate-term goal. To be clear, the question is not *whether* pre-pandemic air travel will return, but more about *when*. Fortunately, Air Canada has so far done everything it can to make that happen, no matter how painful. Some of those painful measures taken include staff reductions, grounding planes, and greatly reducing capacity.

That works for now, but Air Canada still needs a plan for the future. That plan is hopefully something that is revealed later this week when Air Canada announces its latest earnings update. By way of reminder, the last earnings report of 2020 was dismal. During that quarter, Air Canada reported a whopping 88% decline in passengers. This translated into an 86% reduction in revenue over the same period in 2019.

The upcoming results may show a slight improvement, but they will ultimately still pale in comparison to those prior-year numbers. Again, investors should expect no love for Air Canada this week.

Should you buy?

Every stock carries risk. In the case of Air Canada, those risks far outweigh any potential gains over the longer term. Speaking of the longer term, potential investors should recall Air Canada's statement that a full recovery may not be possible for *three years*. What does this mean for investors? Unless you are already invested with a very long-term timeline, there are far better investments in the market, many of which offer superb growth. So, to answer my initial question, no there will be no love for Air Canada investors this Valentine's Day.

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Date

2025/07/01
Date Created
2021/02/08
Author
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