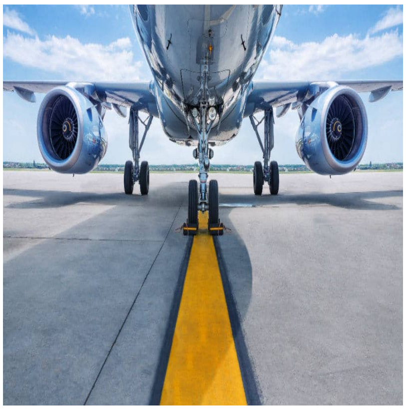

Air Canada (TSX:AC): My Prediction for 2021

Description

Air Canada (TSX:AC) stock's seesaw momentum continues in the hope of unrestricted air travel in 2021. But Air Canada is bleeding cash, and the airline will hang on till its last penny. It will release its fourth-quarter earnings on February 12, and I don't expect the airline to report any bullish figures.

AC has one of the strongest balance sheets among other North American airlines, with $8.2 billion in liquidity. It is this liquidity that is helping it withstand the current crisis, even without a bailout. But for how long? Here's how I think 2021 will be for Air Canada.

Air Canada: The 2020 nightmare

Last year, AC earned just 30% of its 2019 revenue, as the global travel restrictions forced it to cancel flights and suspend routes for an indefinite period. When domestic and international flights started to take off, the second wave of the pandemic brought things back to square one.

In its fourth-quarter earnings, AC will probably show a sequential revenue growth of 30-40% to around $1 billion. Most of this growth will likely come from its cargo business, as it started canceling passenger flights in November end due to rising coronavirus cases.

I expect AC's losses to widen to $1 billion in the fourth quarter from $690 million in the third quarter. I became bearish after the airline cut another 1,700 jobs and suspended more routes for an indefinite period in January. AC has also raised more equity capital to pump its liquidity.

Air Canada: The 2021 prediction

In the first quarter of 2021, most North American airlines expect revenue to fall 60-65% from the first quarter of 2019. AC might expect a 70% decline in revenue in the first quarter, as Canada's travel restrictions are more stringent. It also saw a slower revenue recovery (43% sequential growth) than its American counterpart's (70-100% sequential growth) in the third quarter.

Airlines will see recovery only when the government lifts air travel restrictions. The mutating nature of the coronavirus will keep repeating the cycle till 70% of the population is vaccinated. Hence, these restrictions will be lifted on the successful rollout of the vaccine.

Even if the vaccine rollout is smooth and people are willing to get vaccinated, it will be till September for Canada to get relief from the virus. And the rollout period will be different for different countries. It will be safe to say that the domestic air travel recovery will be delayed to the latter half of 2021.

Once the government lifts travel restrictions, AC could witness pent-up demand for air travel, especially from leisure travelers. This could see a significant surge in revenue and expedite AC's recovery process. At this point, AC's pending **Transat A.T.** acquisition could act as a catalyst and boost revenue recovery.

But AC does not expect any recovery in travel demand before 2022. This means its full-year 2021 revenue could be down 40-50% from the 2019 level. Even if AC reduces its losses through aggressive cost-cutting and downsizing, the piling debt will increase its interest burden. If the Justin Trudeau government removes the Canada Emergency Wage Subsidy (CEWS), losses could widen further. The airline could make more job cuts in 2021.

Investor takeaway

2021 will be a deciding year whether AC stock will go to $30 or $0. Back in 2003, the airline filed for bankruptcy after six months of the SARS epidemic. AC can withstand another year of low revenue but not beyond that. And the airline losses won't end even if air travel returns. It needs a bailout to survive multiple years of losses. A bailout/bankruptcy and lifting of travel restrictions can determine AC's stock price in 2021.

AC is not a long-term investment at the moment. If you are looking to make some money on its volatility, you can trade around the $20-$27 price range in the short term.

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