



Is Air Canada (TSX:AC) in Big Trouble?

Description

The troubles for the Canadian flag carrier **Air Canada** ([TSX:AC](#)) don't seem to end soon. This week, the airline said it's temporarily laying off 1,500 employees as it's suspending international flight operations on another 17 routes in the United States and other countries. Air Canada had to take this decision due to prolonged travel restrictions and extremely low air travel demand. This update came as another blow to Air Canada investors. The suspension of more international flight operations is likely to worsen its financial position further.

Air Canada stock

[Air Canada stock](#) is continuing to see a roller coaster ride as it has fallen by 3.6% in the first three days of this week. In contrast, the stock is still trading with a 5.3% rise on a month-to-date basis. Previously in January, the airline's shares fell by 12.1% to end the second consecutive month in the negative territory. As a result, it is still down by 7.4% year-to-date despite a sharp recovery in February's first week.

By comparison, the shares of the Canadian cargo service provider **Cargojet** are down 2.4%, while the **S&P/TSX Composite Index** has risen by 5.9% in 2021 so far.

Other recent updates

On January 13, Air Canada decided to adjust its network by reducing Q1 2021 system capacity by an additional 25%. This included laying off around 1,700 employees along with over 200 impacted employees at its express carriers. The airline took this action under its COVID-19 mitigation and recovery plan. Its management blamed the continued negative impact of increased travel restrictions and the existing quarantine requirements for its decision to cut the workforce. As a result of this move, Air Canada's capacity in the first quarter this year would be reduced to around 20% of its operating capacity in Q1 2019.

Starting from January 31, Air Canada [suspended](#) its flight operations to 15 Caribbean and Mexican

destinations on request of the Canadian government. The suspension of service on these routes will remain in effect until April 30. The development also increased the airline's financial burden as it had to offer a full refund to affected customers.

Air Canada Q4 earnings

Air Canada is continuing to burn big piles of cash for the last three quarters. Analysts expect its Q4 adjusted net loss to be slightly less than \$1 billion. As a result, its net losses for the full year 2020 could be around \$3.9 billion. Its fourth-quarter revenue is estimated to be about 80% lower from a year ago. That's why investors shouldn't have big hopes from its upcoming earnings event this Friday.

Final thoughts

As of February 1, Air Canada brought back the Boeing 737 MAX in its commercial operations on some domestic routes. However, I don't expect these operations to improve the airline's deteriorating financial condition either, as the travel demand remains very low. Unless Air Canada receives some financial relief from the government, the question of its survival over the long term could continue to haunt investors.

That's one of the reasons I consider its stock highly risky to buy or hold at the moment. Instead, I would prefer to invest in other cheap high-growth stocks to continue getting handsome returns on my investments in 2021.

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