



Air Canada Stock: Buy Now or Wait?

Description

Air Canada ([TSX:AC](#)) just released Q4 2020 results that show the depth of the challenges facing airlines. Investors with an eye on the post-pandemic rebound wonder if Air Canada stock is [cheap](#) now or overbought.

Air Canada Q4 2020 results close out a terrible year

Analysts expected Air Canada to report ugly [Q4 2020 results](#), but the size of the losses indicate how bad things really are right now for the airline.

Air Canada reported an operating loss of \$1 billion in the quarter. Net cash burn for the three months hit \$1.384 billion. That's above the top end of the guidance provided in the Q3 2020 report but in line with the update provided by management in December.

For the full year, Air Canada reported a net lost \$4.65 billion, or nearly \$16.50 per share, compared to net income of \$1.48 billion, or \$5.44 per diluted share, in 2019.

On the positive side, Air Canada finished Q4 2020 with unrestricted liquidity of \$8 billion. Decisions made by management through the year, and especially early on in the pandemic, enabled the company to raise funds and position the airline to weather the pandemic storm in better shape than many of its global peers.

In Q4, the company raised \$850 million through a stock sale at \$24 per share. Air Canada also received \$485 million from the completion of the sale and leaseback of nine 737 MAX 8 planes.

These measures effectively countered most of the net cash burn in the quarter. As a result, unrestricted liquidity remains close to where it was at the end of Q3 2020. The strong liquidity position has likely helped Air Canada take a firm position on negotiations for aid with the government.

Near-term outlook

In the Q4 earnings release Air Canada's outgoing CEO said he is "very encouraged by the constructive nature of discussions" with the Government of Canada in recent weeks. Negotiations on sector-specific aid began in November. Global airlines received at least US\$160 billion in government assistance in 2020, according to the IATA.

Canada put new air travel restrictions in place in the past month. The requirement for negative COVID-19 tests before boarding planes headed to Canada resulted in a wave of cancelled bookings. The latest measures include a ban on all flights to several holiday destinations. In addition, returning travellers must now be tested on arrival and are required to stay in a hotel for three days at their own expense. These efforts to keep out COVID-19 variants will impact Air Canada. Interprovincial quarantine requirements continue to put pressure on domestic travel demand as well.

Air Canada anticipates a capacity drop of 83% in Q1 2021 compared to the same period in 2020.

Investors should also watch the oil market. Oil prices sit at 12-month highs. This will put upward pressure on the price of [jet fuel](#), which typically accounts for 15-20% of an airline's expenses. If oil holds or extends its gains, Air Canada and its peers could face tighter margins.

Should you buy Air Canada stock now?

Air Canada received approval to buy **Transat** for \$5 per share. Once the pandemic ends and governments lift restrictions, the deal could deliver strong long-term returns.

It sounds like an aid deal with the government is on the way. Investors need to keep an eye on the fine print when an agreement is announced, as the anticipated requirements for assistance could weigh on margins and delay the return to profitability. For example, an immediate reinstatement of domestic routes to smaller cities and commitments on carbon emission reductions could be part of the deal.

Stock markets price shares according to future expectations. Air Canada stock trades near \$22 per share at the time of writing. That's about half of where it was before the pandemic.

The stock could certainly move higher on the announcement of a bailout, but investors might want to stay on the sidelines at this level. The road to recovery will be long, and it could be years before Air Canada returns to the size and level of profitability it enjoyed at the end of 2019.

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