Should You Buy Air Canada (TSX:AC) Stock at the Current Levels?

Description

Shares of **Air Canada** (TSX:AC) have grown about 34% in the past six months. However, it is still down about 52% in one year, making it an attractive investment. Investors' optimism over the vaccination continues to lend support to its stock. But before you buy Air Canada stock, let's focus on its key performance indicators to decide whether you should invest in it at the current price level.

Weak Q4 performance

Air Canada disappointed with its Q4 performance. Its revenues remained weak, reflecting lower demand amid stricter lockdown measures. Air Canada reported revenues of $827 million, reflecting a decline of $3.6 billion when compared to the prior-year period. Its available seat miles (a measure of passenger capacity) reduced by 77%. Moreover, revenue passenger miles (a measure of passenger traffic) fell about 89%.

While lower revenues remained a drag on its bottom line, Air Canada's operating loss widened on a quarterly basis. The airline company reported an operating loss of about $1 billion in Q4 compared to $785 million in Q3 and an operating income of $145 million in the prior-year period.

Air Canada's net debt increased about 75% year over year to $5 billion in Q4. It reported a net cash burn of $1.4 billion, including lease and debt-service costs and net capital expenditures.

Challenges persist in the near term

Despite the development of the vaccine, the widespread vaccination is likely to take some time, which is likely to hurt Air Canada's financial performance in the near term. Air Canada expects to reduce its capacity by about 85% in the first quarter of 2021, which is higher than an 83% reduction in the prior-year period.

The lower capacity projection reflects recently announced tighter travel restrictions, including suspension of flights to Mexico and the Caribbean. Further, the severe travel measures also require a negative pre-departure COVID-19 PCR test for international travelers.

Lower capacity guidance indicates that Air Canada could continue to report lower revenues, while its operating loss could remain high. The continued decline in advance ticket sales suggests that Air Canada's financial performance could remain weak in the near term.

It projects its net cash burn could be in the range of $1.35 billion and $1.53 billion, including lease and debt service costs and net capital expenditures.

Should you buy Air Canada stock?

Air Canada stock is an attractive long-term play, despite the near-term challenges. I believe the widespread vaccination, especially in the second half of the year, is likely to ease lockdown measures and drive passenger demand.

Air Canada drastically reduced costs in 2020, including workforce reduction and permanent retirement of 79 older aircraft from its fleet. The recovery in demand and lower cost base is likely to support its profitability in the long run and drive its stock higher. Further, Air Canada is expected to report incremental cargo revenues in 2021 and beyond. Higher demand from e-commerce businesses and specialized e-commerce delivery services are likely to drive its cargo revenues and drive its financial performance in the coming years. Air Canada stock's downside remains low, while the recovery in demand is expected to drive its stock higher in the next two to three years.

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