Air Canada (TSX:AC) Cuts 1,500 Jobs: What Should You Do With the Stock?

Description

The second wave of the pandemic was deadlier for the U.S. than it was in Canada. Even at its peak in late January, the death toll didn't rise as high as it did during the first wave, but the U.S. numbers are still higher than the worst days of the first wave of the pandemic, even when the curve is finally moving downwards.

These numbers aren't the scariest part of the pandemic picture. New COVID strains that are emerging in different countries have rekindled the fear in people's hearts.

Therefore, it was only natural that the government of Canada would impose harsher travel restrictions and enforce mandatory quarantine for people traveling to the country. The government has also planning to ask for a negative COVID test from people entering the country via land routes, starting next week. And it's bad news for **Air Canada** (TSX:AC).

Air Canada stock

Air Canada was reaching new heights before the pandemic hit. It was one of the most sought-after growth stocks before the pandemic. Once it crashed and burned, investors started seeing it in a new light as the ultimate recovery stock. If someone bought the stock when it hit rock bottom, and the stock reaches the pre-pandemic peak valuation (above $50 per share), they would increase their investment four-fold.

But for the stock to recover, the industry and the company should recover first, and that's not happening, at least for now. Thanks to the new travel restrictions, Air Canada has been forced to lay off (temporarily) 1,500 unionized employees and some of its management staff.

The company is also suspending 17 U.S. routes and some other international routes. It completely cut off Mexico and the Caribbean at the request of the government and shut down Air Canada Rouge, which operated primarily in that region.

The future

The future of the company — and, in fact, the future of the whole airline sector — seems a bit grim. The demand for air travel is low as people are opting for minimal travel, and most prefer to stay at home. This happening parallel to the vaccination, which was supposed to turn the tide of the pandemic and give people hope.

And even though the new variants haven't yet proven to be any more dangerous than the original one, and their relationship with the vaccine is still a topic of research, they have nullified the hope that the pandemic will soon be behind us to an extent.

Despite a strong liquidity position and re-orienting the focus towards the cargo, which is currently the only marginally profitable unit of Air Canada; the company might not be able to survive a few more quarters in the current situation.

Foolish takeaway

If you'd bought the company when it was trading below $20, selling now might earn you a tiny profit and save you from worrying about the prospects of an Air Canada bankruptcy. If you want to buy now, you might consider waiting for a while for the stock to steep lower. Buying is a high-risk, high-reward bet, because of the uncertain future of the company and air travel in Canada.

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