



## Air Canada Stock: Time to Buy or Book Profits?

### Description

**Air Canada** ([TSX:AC](#)) stock soared as much as 30% in February. The rally occurred amid optimism of a government bailout and hopes that travel restrictions will disappear in the second half of the year. Is Air Canada stock a [buy](#) now or should you wait for the next pullback?

### Government aid for Air Canada

Air Canada and its peers began bailout negotiations with the government back in November. The global airline industry received at least US\$160 billion in government assistance in 2020, according to the IATA. As such, it would make sense for Canada to help out its own companies. Sector-specific assistance, however, is a bit tricky in this country. If the government bails out the airlines, other struggling industries, notably energy, will want similar treatment.

A rebound in oil prices in recent months has potentially eased that concern, but the government will want to be careful about how it helps Air Canada and the other Canadian carriers. This is likely one reason why the talks have dragged on for several months.

Investors need to carefully look at the details if a deal is reached. The government has indicated it wants commitments on refunds for cancelled flights. That would blow a big hole in Air Canada's liquidity. Another anticipated requirement is the reinstatement of routes to smaller domestic destinations. Putting all those flights back on the schedule before there is enough demand to make them economically viable would delay a return to profitability.

Analysts also think the government could require Air Canada to follow through on the purchase of new planes made in Canada. The company scrapped orders for 12 A220 aircraft and delayed delivery of 18 of the planes it was scheduled to receive in 2021 and next year. The A220s Air Canada originally ordered from **Bombardier** are [made by Airbus Canada](#) in Quebec.

In addition, pundits speculate commitments on carbon reduction initiatives might be part of a bailout deal.

So, investors will need to evaluate any potential aid package to determine if it is a net benefit to shareholders.

## When will flights take off again?

Current restrictions on air travel to and from Canada are the tightest since the start of the pandemic. Until vaccines are widely distributed to the broader public, it is unlikely the government will ease up on the rules. The emergence of new COVID-19 variants means the government will be very cautious in the reopening plan.

The government says all Canadians who want a COVID-19 vaccine will have access to one by the end of September. Investors should use that date as a starting point for when the airline restrictions could begin to lift.

## Is Air Canada stock a buy or too expensive?

News of a bailout deal could initially send Air Canada stock soaring. However, investors need to consider the numbers before buying the shares at the current price. The company burned through more than \$1 billion in net cash in Q4 2020. That situation is unlikely to improve much through the end of the summer. Air Canada finished 2020 with \$8 billion in liquidity, so it has access to enough cash to survive the coming months, but that's just the beginning of the struggle.

Industry leaders don't expect capacity to rebound to 2019 levels for years. Even if flights start to ramp up in a meaningful way, the costs to service new debt will put a pinch on profits. The spike in oil prices is also a threat. Analysts say oil could rally to US\$75 by the end of the year and possibly reach [US\\$100 per barrel](#) in 2022. That would push up jet fuel costs.

Air Canada stock traded near \$50 when demand was robust, oil was cheap, and profits flowed. At the time of writing the share price is close to \$25. That seems a bit high given the outlook for the rest of 2021 and the next few years.

A surge to \$30 is certainly possible on positive news, but I would book profits now and search for other opportunities.

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