Air Canada: Should You Buy or Avoid This High-Flying Stock Right Now?

Description

Stocks that took the hardest hits in 2020 are starting to recover. Some still look cheap as revenues and profits could surge through the end of the year. Others, however, face a bleak outlook in the next few months and it could be years before they regain their former glory.

Is Air Canada stock cheap or overbought?

Air Canada trades near $28 per share at the time of writing. That's up from $15 in early November. The initial surge came on the news of positive COVID-19 vaccine test results. The latest rally is being fuelled by optimistic guidance on vaccination rollouts.

By the end of September, Canada intends to provide a vaccine to every Canadian adult who wants one. That target could occur earlier. South of the border, the White House recently said every American adult could get the first shot by the end of May. The U.K. is also making good progress on its vaccination program. The prime minister hopes to end restrictions by late June.

Despite the positive outlook, Air Canada still faces daunting challenges. The company cut more than 20,000 jobs last June and has continued to reduce staff, cut routes, and ground planes due to tighter travel restrictions. In fact, the new measures the Canadian government put in place at the start of 2021 mean the current situation is the worst it has been for Air Canada since the start of the pandemic.

All flights to Mexico and some other vacation destinations are on hold. Travellers who want to return to Canada now have to pay to stay in a hotel for three days on arrival to await COVID-19 test results. New variants of concern mean the government will likely take a very cautious approach with reopening of air travel.

As such, it might be Q4 2021 before Air Canada really starts to ramp up operations.

Government bailout impact on Air Canada shareholders

Air Canada continues to negotiate terms for financial aid from the Canadian government. Reports indicate the minimum requirement would be the restart of flights to regional towns and cities as well as refunds for cancelled flights during the pandemic. Low-interest loans appear to be the way the government wants to go, adding significant debt to Air Canada's balance sheet.

Pundits also speculate the company might be forced to take delivery on a cancelled A220 order. The planes are made in Quebec for **Airbus** who bought the A220 division, formerly CSeries, from **Bombardier**.

An article in *The Globe and Mail* indicated the government might consider "…some form of equity ownership in return for low interest loans to the industry." If that turns out to be the case, Air Canada stock could take a hit. Investors tend to get nervous when governments become part owners of airlines.

Air Canada traded for $50 per share when it had full planes, robust profits, and relatively cheap fuel.

Today, the company is burning through more than $1 billion of net cash per quarter. Industry leaders don't see capacity returning to 2019 levels for years. There is no guarantee that lucrative business seats will fill again even when the pandemic ends. At the same time, oil prices just hit a two-year high, which could drive up fuel costs.

With all the near-term risks and the medium-term unknowns, investors might want to book some profits on Air Canada stock and search for other deals in the market today.

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