



Should You Buy or Hold Air Canada (TSX:AC)?

Description

Air Canada ([TSX:AC](#)) is a story of two very different companies. In its pre-pandemic incarnation, Air Canada was a darling of the market. Record-breaking earnings reports, solid growth prospects, and strong leadership drove the airline forward. The company also had an impressive growth record spanning back over a decade as one of the best-performing stocks on the market. Once the pandemic hit, however, that view changed rapidly. Air Canada's business and, by extension, its stock price have dropped. This had led many investors to question whether to buy or hold Air Canada stock.

Let's try to answer that question.

Should you buy or hold Air Canada?

Over the past decade, Air Canada has reinvested itself to become the great investment that it was prior to the pandemic. The airline has shown it has the willingness to enact change and revamp itself as needed. That's exactly the strong type of leadership and commitment to change that will be needed post-COVID.

There's no denying the fact that Air Canada ran a very successful business in its pre-pandemic life. Unfortunately, that has all changed, and, as with many things in our daily lives, the post-pandemic world may be very, very different. Remote working and schooling are two prime examples of this. There is no longer a need for the traveling executive flying in business class to attend an out-of-town meeting when a video conference can accomplish the same.

When it comes to airlines like Air Canada, cross-border business travel and international routes were an integral part of the company's revenue stream. Both have dried up significantly. In fact, over the course of fiscal 2020, Air Canada reported revenues of \$5.833 billion reflecting a 70% drop over the pre-pandemic annual report in 2019. That 70% drop in revenue led to the airline posting a net loss of \$3.776 billion for the fiscal.

Adding to that is an often overlooked factor: airlines are expensive international businesses to run. They require highly specialized and trained staff, both at the point of departure and arrival. Additionally,

pandemic-induced cuts in services will not come back at once, and those grounded planes are still incurring costs.

There could be more pain before that recovery comes

While there's little reason to doubt that an end to the pandemic will come, that end will take time. Even by the most optimistic views, we could still have some semblance of social-distancing measures in place by the end of 2021. For certain enclosed gatherings, such as sitting on an airplane with recycled air, that return to normal could be even further out into 2022. There's also the fact that destination countries in Air Canada's network will need to reopen to flights fully before a recovery can take shape.

This led Air Canada to slash capacity, which has applied pressure to earnings. Over the course of 2020, Air Canada already cut capacity by 67% when compared with 2019. Turning to the first quarter of 2021, the airline will see that drop over 2019 rise to 85%.

That might be reason enough for prospective investors to hold off until the market improves.

Final thoughts

No investment is without risk, and Air Canada certainly has plenty of risk associated with it. That's not to say that there isn't long-term potential to be realized from investing in the airline. It's simply that the risk in doing so still outweighs that potential upside.

That being said, should you buy or hold Air Canada right now? In my opinion, unless you are already invested in Air Canada, there are far better investments right now. Many of those potential investments can offer a [handsome dividend](#) and, in some cases, an enviable [defensive moat](#).

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