Air Canada (TSX:AC) Stock: Can Good PR Please Investors?

Description

Air Canada (TSX:AC) has no good news to share. The government remains hesitant to remove restrictions on non-essential travel, and Europe is preparing for another lockdown as a third wave of the pandemic looms. Just this week, the airline stated that it plans to resume flights to summer vacation destinations. In these trying times, AC is resorting to good public relations (PR) to keep the ball rolling. The airline is portraying itself as an environmentally friendly company to appeal to ESG (environmental, social, and governance) investors.

Air Canada's step to an eco-friendly future

Many Canadian newspapers are talking about Air Canada's A220-300 RetroJet. This is a part of AC's plan to modernize its fleet and only keep fuel-efficient aircraft and retire older aircraft. The A220-300, a narrow-body aircraft designed by **Bombardier**, will replace the slightly bigger Airbus A321 and consume 20% lower fuel per seat than the industry standards.

Modernizing the fleet is not a new strategy. Many airlines modernize their fleet at frequent intervals as older aircraft become too expensive to maintain. But the Air Canada's PR team went a step ahead and talked about the environmentally friendly paint of RetroJet that is chromium-free and saved more than 10,000 liters of water in painting one aircraft.

Why is Air Canada focusing on environment friendliness?

You may ask why AC is suddenly so vocal about its environmental efforts. There are two reasons for it. Firstly, the airline is trying to clean its image. During the pandemic, it came under the negative light for not refunding the ticket money to passengers whose flights got canceled because of the pandemic.

And secondly, it is leveraging the investing theme of the decade, ESG. The developed countries' governments have accelerated their efforts to reduce carbon emission. They are even offering subsidies for ESG efforts. Some governments asked their airlines to reduce carbon emission as a condition for giving bailout.

AC is doing everything possible to encourage the government to accelerate the decision-making process and announce a bailout. The airline will use a portion of the bailout money to keep itself operational even when revenues are dry. It will also use the money to restructure itself to thrive and grow in the post-pandemic world.

Air Canada's restructuring plan

AC can do nothing about the travel restrictions. Hence, it is doing everything in its control to generate revenue. AC has entered the air cargo business and is tapping the e-commerce momentum.

The airline is making the most of its Aeroplan loyalty program. It is tying up with various brands like **Uber** Eats and **Starbucks**. AC is also modernizing its fleets to reduce the overall operating cost. Looking at the current state of air travel, wider-body planes with higher seating capacity will be the most inefficient. Hence, it is shifting to narrow-body aircraft.

All the above efforts will only make AC more efficient once revenue returns in full swing. That will take another seven to eight years. Until then, AC has to preserve cash and avoid bankruptcy.

The best- and the worst-case scenario

If the pandemic stabilizes and things improve from this point, AC will survive without a bailout. It plans to resume flights to some summer destinations in May. It is expecting COVID-19 tests at the airport to ease quarantine requirements for foreign travelers. As more people are vaccinated, it expects travel restrictions to start easing.

AC is prepared for a three-year battle, of which it has fought bravely through the first year with $8 billion liquidity. It has thrived two waves of the pandemic. But a third wave of the pandemic, deadlier than the first two waves, could put Air Canada on a ventilator. Another lockdown could send AC stock down $20. In such a scenario, the government will have to seriously consider whether or not they want a Canada-based competitive carrier.

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