



Air Canada (TSX:AC) Stock: No News Is Bad News

Description

In times of turmoil, the optimist says no news is good news. But it seems optimism is fading for **Air Canada** ([TSX:AC](#)) as no news is bad news. After the second wave of the pandemic pulled the stock down to \$20 in January, it began to rally on the hopes of bailout news. But investors are now losing patience with no news around the bailout. Their disappointment was reflected in the stock price, which fell 10% last week to \$26.7.

Air Canada tries to keep investors hopeful with some news

AC is a momentum stock that moves on the news. The airline industry is in its worst crisis that has changed its world. They have to adapt to the new world to thrive.

AC is implementing new business strategies. But till these strategies start showing results, it has to keep investors hopeful that AC will return. Since its 2020 earnings, the airline has been optimistic around the bailout. Every week or so, it posted news that hinted [a bailout](#) is coming.

Firstly, AC agreed to refund ticket money for flights canceled due to the pandemic. Then it pledged to reduced carbon emission. Now the news reads AC will start restoring flights to Europe, Asia, and some cities of the United States in May. All of these are just reiterations of what investors already know and have priced in the stock.

Investors are at the crossroads

AC stock's technicals show that 50% of people are still buying the stock. Investors are now at the crossroads. If there is no news, the stock could continue to fall. But if there is news that injects more cash into the airline, the stock could rally.

Cash is the only thing that is keeping AC alive. Although the airline had \$8 billion liquidity at the [start of the year](#), it is bleeding cash at the rate of \$15-\$17 million per day. At this rate, it is using \$1.4 billion of its cash every quarter.

Why is Air Canada still bleeding cash?

AC has done everything to cut costs. It has halved its workforce, retired one-third of its fleet, cancelled orders for 22 new aircraft, and cancelled routes. But it is still bleeding cash as even cost-cutting needs money. Moreover, it needs money to restructure the airline for the post-COVID-19 world.

Airlines will adapt, find opportunities, and re-emerge stronger than before. The industry has witnessed through many crises, and in each one, the bears thought that the airlines are doomed.

In the 2001 crisis, airlines introduced new security protocols that are there even today. For instance, you can't carry sharp objects with you on the plane. In the 2003 SARS epidemic, many airlines, including AC, went bankrupt and re-emerged more powerful. AC started new routes and budget airlines that offered cheaper tickets and carried more passengers in a plane.

For the 2020 crisis, AC has launched cargo airlines to leverage the e-commerce potential. It is converting its retired passenger planes to freight carriers to avoid spending separately on cargo planes. AC also aims to reduce carbon emission, which in turn will reduce its operating cost.

According to the International Air Transport Association, every new generation of aircraft improves fuel efficiency by an average of 20%. AC has retired old fleet and has only kept fuel-efficient aircraft with low operating cost. Moreover, it is taking initiatives like single-engine taxiing, replacing pilots' paper manuals with iPads, and lighter weight composite onboard carts.

All of these efforts will reduce fuel consumption. Fuel is an airline's largest operating expense (23% of revenue). It is also a major contributor to carbon emissions.

Final thoughts

The \$8 billion liquidity might look like a huge amount at present, but it will deplete faster when the airline resumes flying planes for a loss. Till the above efforts start showing results, cash is a depleting resource AC has to preserve. And with AC burning cash daily, no news is bad news.

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Date

2025/09/12

Date Created

2021/03/30

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