Air Canada (TSX:AC) Stock: Could it Still Plummet to $0?

Description

In 2003, **Air Canada** (TSX:AC) was the 11th-largest carrier in the world. April 2 of that year was a nightmare for investors, because the airline company filed for bankruptcy protection. Five factors, including the decline in travel demand due to September 11, 2001, World Trade Center terror attacks, nearly blew the chances of recovery.

Management cited the slowdown in the world economy, rising aviation fuel prices, and respiratory ailment SARS as the other reasons for the bankruptcy filing. The Iraq War was the fifth issue, because the Middle East became a hotbed. Costs outpaced revenue, so it was imperative to take drastic action.

Still, Canada's air dominant carrier emerged from creditor protection 18 months later following a restructuring program. Air Canada's reinvention was gut-wrenching, with creditors taking massive haircuts and shareholders holding worthless stocks.

Global pandemic 2020

The COVID-19 pandemic was more disastrous, as Air Canada has yet to take flight since March 2020. So far, management hasn't filed for bankruptcy more than one year after the outbreak. However, losses continue to mount while the company waits for sector-specific financial support from the federal government.

Last year was the bleakest year for Air Canada. Its full-year revenue fell by 70% to $5.83 billion versus full-year 2019. The operating loss was $3.77 billion compared to the operating income of $1.65 billion in the previous year. Investors lost 53% in 2020.

The catastrophe was too much to bear. Air Canada's Q1 2020 financial results were the first time in 27 consecutive quarters that management didn't report year-over-year operating revenue growth. It was downhill from there due to travel restriction extensions and the resurgence of COVID cases.

Stock performance

Many hope Air Canada can stage another remarkable comeback in 2021. However, the financial damage has been severe. While the airline's unrestricted liquidity was $8.013 billion at year-end 2020, the bleeding won't stop. Fresh infusion, whether bailout or loan from the federal government, is obligatory at this point.

As of April 1, 2021, you can purchase Air Canada at $26.45 per share (+16% year to date). Market analysts forecast a high of $35 (+32%) in the next 12 months. I suppose the prediction hinges on a federal bailout soon. Otherwise, a steep correction could drop the price to less than $10 or closer to $0.

Slower recovery

Air Canada faces slower recovery than some airlines, because it's heavily reliant on international traffic. The domestic business contributed only 30% to 2019 revenue. Prolonged travel restrictions could further hamper Air Canada's recovery.

Meanwhile, the $8.85 billion airline company's efforts to rapidly expand its cargo network are ongoing. After partnering with Cargo.one, Air Canada Cargo became the first North American airline to join the Germany-based cargo e-booking platform.

Freight forwarders will gain access to a booking experience with real-time capacity and quotes. Also, it paves the way for Air Canada's entry into e-commerce delivery. The customers' online access includes connections to and from Europe, the U.S., Latin America, and Asia-Pacific.

The array of travel restrictions that are constantly changing continues to clip Air Canada's wings. Revenue from leisure travelers from the country to sun destinations may not come due to flight suspensions. The airline stock remains a risky bet in 2021.

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