



3 Reasons Why I'm Not Buying Air Canada (TSX:AC) Yet

Description

Air Canada ([TSX:AC](#)) remains an intriguing discussion point among investors. On the one hand, pre-pandemic Air Canada was handily one of the [best-performing stocks](#) on the market. The airline had surged in the decade prior to the pandemic, establishing itself as one of the best-run airlines on the continent. Since the pandemic, some investors have shifted away from investing. Here are three reasons why I'm not buying Air Canada anytime soon.

Inoculations are slow, but Canada is even slower

When the pandemic first started, Canadians looked to the surging numbers in the U.S. with utter shock. We shut the border and locked down while parts of the U.S. remained open. Some even said that type of surge could not happen here.

Fast forward to today and parts of the country are now in their third lockdown. The border with the U.S. remains shut, even to the vaccinated that are looking to reconnect with families or trying to add some much-needed tourist revenue into provincial coffers.

Vaccinations are still progressing at a trickle, whereas the U.S. is now inoculating nearly 4 million people every day. To put that into context, that level of engagement could vaccinate all of Canada in under two weeks. The U.S. is not alone in this regard- the UK also ramped up vaccinations significantly.

In fact, some European countries are now planning to open their borders shortly to tourists that have been vaccinated. It's a small step towards normalcy, but that's what Air Canada needs to get on the path towards its pre-pandemic trajectory.

For that to happen, Canada needs to acknowledge the value of being vaccinated and open its borders to vaccinated cross-border and international traffic.

Delays will come even when we get back to normal

Even when we return to normal life (in whatever form that will be), there's still the question of supply and demand. Air Canada has rightfully slashed its capacity during the pandemic, which will need to grow at some point. But that capacity is based on demand, which could take several months to fully mature before planes start flying near capacity.

Here's another way of looking at it. People have been stuck at home for well over a year. We've been conditioned to maintain social distancing, and wear masks. Obviously, while COVID is still an issue, there's a good reason for those measures. But what does that mean in terms of a comfort level for would-be passengers? Can we expect people to immediately want to squeeze into a metal tube with recycled air to be hurled through the sky for a few hours?

In short, we can expect a trickle of demand to steadily pick up over time. Unfortunately, this too is dependent on my first reason above.

Non-COVID problems persist

You may not remember it, but there are still non-COVID issues facing Air Canada that stem back to well before the pandemic. Remember the 737 Max fiasco? That had already grounded planes well before COVID-19 became an issue.

More recently, Air Canada announced this month that it would be completing an existing firm order for 40 737 Max jets. That order, which carries a price north of \$5.8 billion was only possible thanks to the government investing in Air Canada.

While it is good to see the airline investing in growth, the government's intervention is nothing short of a bailout. What's more, is that this latest bailout comes with conditions. Specifically, Air Canada is to keep employment levels at those in place as of April 1. The airline will also begin honouring refund requests made for some flights. Specifically, those flights scheduled post-Feb 1 2020 where customers could not fly due to COVID.

Another point worth noting is that this bailout also means that the government is once again invested in the flag carrier.

I'm not buying Air Canada just yet

There's no reason to doubt that the pandemic will end as people are finally being vaccinated. Markets and schools are reopening. But when it comes to Air Canada, that return to profitability and growth is still far off.

In other words, there are [far better investments to consider](#) right now. I'm not buying Air Canada just yet.

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