New COVID-19 Variants Could Hit Air Canada Stock

Description

The COVID-19 pandemic will end, but nobody knows when or how. Many health experts agree that we may need booster shots for many years to come, even after the insidious coronavirus goes endemic. That's bad news for international-focused airlines like **Air Canada** (TSX:AC), which, as I've noted in prior pieces, appears far more dependent on the global vaccine rollout rather than just the Canadian one.

While I do think Air Canada will, in due time, return to 2019 levels of air travel, I'd discourage investors from timing its recovery.

Air Canada faces a far tougher road to recovery than some of its domestic peers in the states, some of which are seeing their stocks move above that of their 2020 pre-pandemic highs. With COVID-19 variants of concern being discovered across various parts of the globe, widespread travel restrictions and intermittent lockdowns could continue to suppress Air Canada's numbers for some time, and the broader basket of airline stocks could be in a spot to take several steps back due to new variants.

Air Canada is too vital to fail, but that doesn't mean you should own it here

Air Canada stock will stand to be one of the more turbulent stocks out there. The company is bleeding cash, losing business, and could find itself at risk of missing peak travel season if Canada can't curb the horrific spring COVID-19 wave, which continues to pressure hospitals across the nation.

It is comforting to know that the federal government will have Air Canada's back should it need another round of financial relief. But just because Ottawa won't let Air Canada fall to zero does not mean it'll be a great investment amid the critical race between variants and vaccines.

As humans, we like to be optimistic. We've got a handful of vaccines, with boosters on the way. Every day that goes by, more Canadians get the jab. Each jab puts us closer to achieving herd immunity.

That said, excess optimism is seldom a good investment strategy. As investors, we need to conduct a careful analysis of every investment to fully grasp the risks to be taken on. In the case of Air Canada, the stock is not yet out of the woods, and it's probably going to take more good news to move the needle on the stock.

Ottawa's latest round of financial relief did not come as a surprise. It was as expected, and the stock didn't bounce on the news. Although the company is likely to get a free pass for its next round of quarterly results, I think that the odds of negative surprises outweigh the potential for positive ones.

New COVID-19 variants pose a massive risk to the airlines

The WHO recently classified a triple-mutant variant of concern in India as a serious global health risk. As people in developed countries get vaccinated and let their guards down, new variants have a chance to strike. And if they do, reopening rollbacks could strike and the broader basket of reopening plays such as Air Canada could most at risk of downside pressure.

The race between vaccines and variants isn't over. It's nice to be optimistic, but as an investor, you're more likely to be rewarded if you're realistic.

According to the WHO, variants of concern are defined as variants that are either more infectious, virulent, or resistant to existing vaccines. The more the coronavirus spreads, regardless of location, the greater the chances are of identifying a truly insidious variant that could lengthen the pandemic and further pressure the businesses most at risk of lockdowns. And for that reason, I'm taking a pass on Air Canada stock at $25.

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