Air Canada Stock: Buy Now or Wait for a Pullback?

### Description

**Air Canada** (TSX:AC) continues to burn through cash, as it waits for travel restrictions to end. Investors who missed the rally off the 2020 lows wonder if this is the right time to buy the stock.



## Government aid

Air Canada finally reached an aid agreement with the Canadian government. The firm gets access to $5.879 billion in a combination of equity investment and loans. The government bought $500 million worth of stock in Air Canada at roughly $23.18 per share and has an option to acquire more than 14.5 million additional shares at a price of just under $27.27 per share.

The loans range from a $1.4 billion credit facility at 1.211% to refund tickets for cancelled flights to as high as 9.5% interest on other facilities. Air Canada has access to a $1.5 billion secured revolving facility at 1.5% interest. In addition, the government is providing $2.475 billion spread across three non-revolving credit facilities of $825 million each. The first five-year tranche has a rate of 1.75% above the CDOR rate. The second tranche is a six-year loan at 6.5% that jumps to 7.5% after year five. The final tranche is a seven-year facility that starts at 8.5% and jumps to 9.5% interest after five years.

Ideally, Air Canada will not need to tap the more expensive facilities.

The government placed conditions on the aid that could delay Air Canada's return to profitability. Air Canada has to restart most of the regional domestic routes it cut across the country to preserve cash. The company is also required to maintain employee numbers at the April 1, 2021, level. This could inhibit future restructuring efforts.

In addition, Air Canada must complete the purchase of 33 Airbus A220 planes it ordered before the pandemic. Last fall, the company reduced the size of the order to match its anticipated needs over the next few years. The planes are made in Canada.

## Air Canada Q1 2021 results

Air Canada's Q1 2021 results show the extent of the ongoing challenges for the airline sector. The company reported net cash burn of $1.27 billion, or roughly $14 million per day. That was better than the hit the airline anticipated when it provided the Q4 2020 numbers.

With COVID-19 travel restrictions still in place, or getting tighter for some destinations, such as India, capacity continues to be low. Air Canada reduced capacity in Q1 2021 by 82% compared to the same period last year and by 84% compared to Q1 2019.

A shift to cargo flights has helped mitigate some of the pain, but the overall situation remains difficult.

Net cash burn in Q2 2021 is expected to be $13-15 million per day. This doesn't include the ticket refunds as the company expects to use the credit line to make the refunds cash neutral to the liquidity position. Air Canada says its maximum refund exposure is about $2 billion but expects some customers to retain their vouchers.

## Should you buy Air Canada stock now?



Air Canada trades near $25 per share at the time of writing. That's down from the March high near $30, but up significantly from the $15 mark last fall. Before the pandemic, Air Canada traded for $50 per share. Pundits have mixed opinions on whether or not the stock is currently undervalued.

The company will survive and air travel will eventually resume. At this point, however, I think the stock is expensive given the uncertainty around the removal of travel restrictions. Rising fuel costs and that risk that business travel might not recover for years must be considered when evaluating an investment in Air Canada today.

As such, I would wait for a pullback in the share price or search for other opportunities.

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