# Air Canada (TSX:AC) Stock: What's Restricting its Rally, Even After Receiving Government Support?

### Description

It's been a while since the government agreed to provide **Air Canada** (TSX:AC) access to up to $5.9 billion liquidity through the large employer emergency financing facility program. However, neither this package nor the company's latest quarterly results have been able to boost investors' confidence. Air Canada stock is continuing to trade on a negative note, as it has lost 16% in the last couple of months.



Let's take a closer look at what could be an obstacle to a rally in its stock.

## Air Canada's key worries

The Canadian flag carrier has seen extremely difficult times in the last year. The COVID-19-related travel restrictions and shutdowns suddenly took Air Canada's revenue down by nearly 70% in 2020 to just $5.8 billion from $19.1 billion in the previous year.

Q3 2020 was the worst quarter of the pandemic phase for the airline, as it reported about $1.3 billion adjusted net losses for the quarter. While its daily cash burn rate has reduced since then, it continues to be a victim of the government's reluctance to ease travel restrictions.

This is one of the reasons why the company's CEO Michael Rousseau recently urged the government to communicate and implement a reopening plan for the country. He argued that the administration should start "replacing blanket restrictions with science-based testing and limited quarantine measures where appropriate."

While Air Canada may have enough liquidity at the moment to work on a financial recovery plan in the post-pandemic world, the recovery may not be possible unless the travel demand significantly improves. That justifies Rousseau's worries about continued travel restrictions in the country.

## Agreeing to government conditions

Earlier this year, Air Canada seemingly became desperate to get financial support from the government. In this desperation, it agreed to the government's several conditions. Some of these conditions are likely to increase the costs of this already financially struggling company. For example, the airline is now refunding its customers all fares for flights that couldn't operate due to the pandemic since February 2020 — including the non-refundable fares.

Also, Air Canada agreed to the government's demand to resume the regional flight operations that it suspended during the Covid period. Many such regional flights may not turn profitable for a long period due to a significant decline in travel demand.

## Foolish takeaway

Air Canada stock is currently trading at $24.91 per share with about 9.4% gains in 2021. Conservative investors who already own Air Canada stock may continue to hold it. However, considering the ongoing weakness in travel demand and uncertainties about Air Canada's future recovery timeline, I won't consider buying the stock right now.

In the last few weeks, many fundamentally strong Canadian tech companies have seen a massive decline in their shares. I would highly recommend investors to add a few such fundamentally strong stocks to their portfolio amid the ongoing correction. Doing so would minimize risks to your portfolio and help you get healthy returns in the long term.



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