



Should You Buy Air Canada (TSX:AC) Stock Right Now?

Description

The COVID-19 pandemic dealt the airline industry a heavy blow. Canada's flag carrier, in particular, fell off the centre stage last year. **Air Canada** ([TSX:AC](#)) enjoyed 27 consecutive quarters of profits until disaster struck in mid-March 2020. Since then, it has been four straight quarterly losses. For Q1 2021, the airline company reported a net loss of \$1.304 billion.

Notably, Air Canada's net cash burn during the quarter was \$1.274 billion, or an average of \$14 million per day. Despite receiving federal government support of \$5 billion, the [airline stock remains in trouble](#). From \$27 in April 12, 2021, following the loan package's announcement, AC trades at \$25.80 on May 13, 2021. Is the stock worth buying at this price?

Top priority

Among Air Canada's top priorities is to continue with its efforts to maintain adequate liquidity levels. Management is constantly assessing the situation and would secure additional financing arrangements if necessary. In Q1 2021, the company extended its US\$600 million and \$200 million revolving credit facilities by 12 months, to April 2024 and to December 2023, respectively.

The picture in Q2 2021 isn't as rosy as people would think, however Air Canada estimates the net cash burn to hover between \$1.180 billion and \$1.370 billion or between \$13 million and \$15 million daily, on average. Moreover, the airline's net cash burn projection doesn't account for the eligible refunds of non-refundable fares in process.

Refunds credit facility

The caveat of the federal government's loan package is the payment of customer refunds. Air Canada is eligible to draw payment for refunds under the Canadian government's \$1.404 billion refunds credit facility.

Such refunds are cash neutral to Air Canada's liquidity position, but up to the extent of \$1.404 billion.

The maximum exposure to cash refunds for all eligible customers holding non-refundable tickets is around \$2 billion. However, the exact amount of refunds is undetermined at the moment.

Air Canada can't say how many customers will request a cash refund for non-refundable tickets. Based on experience and current observations, the amount could be significantly lower than \$2 billion. Some customers are likely to retain their travel vouchers instead of choosing a refund.

Plea to restart Canadian travel

Air Canada is flush with cash but still standing on shaky ground. Along with the National Airlines Council of Canada (NACC), the airline company wants the federal government to introduce a plan to restart the country's travel and tourism sectors. They're also asking Prime Minister Justin Trudeau to end the "ineffective" quarantine hotel program.

Air Canada President and CEO Michael Rosseau said it behooves the Trudeau administration to communicate and implement a reopening plan for the country. It should recognize that a healthy aviation sector is vital to economic recovery. NACC President Mike McNaney said that with the vaccination pace increasing, there's no reason why the government can't develop a restart plan.

Thumbs down

I'm not ready to give Air Canada a [thumbs up](#) yet like market analysts who recommend a strong buy. Before Calin Rovinescu left as the airline's president and CEO to join **Scotiabank's** board and be an adviser at **Brookfield Asset Management**, he said recovery would take time. He believes the business will return to pre-pandemic levels no later than 2023.

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