



Air Canada (TSX:AC) Stock Is up 25% This Year: Buy or Sell?

Description

The long-awaited federal government support for **Air Canada** ([TSX:AC](#)) came in April 2021, although it did not prop up the stock as people expected. It took months before the negotiating parties came to terms on a pandemic package. Canada's most dominant carrier had to give in to conditions, including a \$500 million government stake in the airline company.

Deputy Prime Minister Chrystia Freeland acknowledges that the airline industry is a strategic sector. The \$5.9 billion financial aid received support from Unifor, the Canadian Air Traffic Control Association, and the National Airlines Council of Canada industry group.

Many events have transpired since April 12, 2021, and Air Canada is making good on its commitments. Likewise, management is confident travel demand will bounce back as soon as vaccinations increase. On the stock market, the year-to-date gain is 25.38%. Should investors [load up](#) on the airline stock at \$28.55 per share or unload their holdings?

Bone of contention

Payment of refunds was the bone of contention, as the government wants to ensure no customers would be financially disadvantaged. Thus far, Air Canada has processed 92% of refund requests by eligible customers due to cancelled flights, all COVID related. The latest news is that the airline has extended the deadline to submit a refund request until July 12, 2021.

Before granting the repayable loans by Canada Enterprise Emergency Funding Corporation (CEEFC), the other critical issue is job protection. Air Canada laid off thousands of workers in March 2020 at the onset of the global pandemic. As a result, the airline had to commit to CEEFC to maintain jobs at current levels, respect collective bargaining agreements, and protect workers' pensions.

On June 10, 2021, Air Canada announced the recall of more than 2,600 employees. According to the airline's spokesperson, Peter Fitzpatrick, the move was in anticipation of increased demand for flights.

The company notes the increased vaccinations and declining COVID-19 cases that should eventually

ease government restrictions. Employees with various job functions, including flight attendants, are expected to return in stages during the months of June and July 2021.

Financial shock

Air Canada remains in a state of [financial shock](#) following five consecutive quarterly losses. In Q1 2021 (quarter ended March 31, 2021), operating loss ballooned to \$1.049 billion compared to \$433 million in Q1 2020. While its cash burn rate improved during the quarter, the airline was still burning \$14 million per day, on average.

On June 6, 2021, Air Canada announced the return of bonuses and share awards by top executives. According to a **Reuters** report, it responded to public disappointment over the airline's executive compensation. Transport Minister Omar Alhagabra acknowledges the move is a step in the right direction.

Freeland and Alhagabra's joint statement read, "Canadians are right to expect responsible corporate behavior, particularly with respect to executive compensation, from companies receiving government financial support during the pandemic."

Organic recovery

The skies have yet to clear if the country's flag carrier were to achieve organic recovery. Air Canada's immediate plan is to reinstate several routes to destinations around the world this June. It will add more flights as the summer progresses.

Meanwhile, the clouds of uncertainty still hover over Air Canada. Investors can't expect the company to make earnest profits anytime soon. The airline stock isn't worth buying — not at this time.

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