



Air Canada (TSX:AC): A Post-Pandemic Buy?

Description

The COVID-19 pandemic has impacted just about every business everywhere. Among the most impacted businesses are airlines, which are dependent on people gathering in close spaces for travel. Fortunately, the pandemic is coming to an end, but will that make airlines such as **Air Canada** ([TSX:AC](#)) post-pandemic buys?

Let's try to answer that question.

The airline business is really tough

Most investors look back on the decade prior to the pandemic and see it as a period of immense growth. There's a good reason for that view. During that period, Air Canada was one of the best-performing stocks on the market.

What investors may not recall clearly enough is that prior to that period of growth, airlines struggled greatly. It wasn't uncommon for airlines to post record-breaking profits in one quarter and massive losses in the next. That view was one reason why [Warren Buffett](#) was once quoted saying, "The worst sort of business is one that grows rapidly, requires significant capital to engender the growth, and then earns little or no money. Think airlines."

Ouch.

Now the Oracle of Omaha went against his own advice and invested billions in several airlines a few years later. This coincided with the record-breaking profits period I noted above. But Buffett has since sold off his airline investments, which, given the impact of the pandemic, was sound advice.

Fast forward to today. Airlines such as Air Canada are beginning to ramp up their schedules to near 2019 levels. Markets across the world are beginning to reopen to (mostly) vaccinated travelers. But as encouraging as that sounds, there's still a long way for Air Canada to go to return to its pre-pandemic profitability.

That hasn't stopped investors from buying the stock at its still-discounted rate. Many see the airline as a unique buy that is still far undervalued and poised to see significant growth once markets fully open.

Is it time to invest in Air Canada as a post-pandemic buy?

While there is an opportunity for Air Canada to see some growth, that recovery may not come as quickly as [some anticipate](#). If Canada suddenly opened up its borders to cross-border and international traffic today (which it hasn't), it would take weeks for some flights to begin to register growth.

Adding to that, not everyone will be comfortable right away getting on a plane with a bunch of people. We've spent more than a year largely in isolation, devoid of many social norms. The idea of sitting in an enclosed metal tube next to hundreds of strangers breathing recycled air for several hours sounds more like torture than a vacation at this point.

In other words, Air Canada isn't a shining example of a post-pandemic buy, at least yet. When markets do finally reopen, it could take several months or longer for travelers to begin to feel comfortable enough to hop on a plane again.

Air Canada may struggle after the pandemic ends

There's still a myriad of other concerns that Air Canada will need to deal with to recover fully. These range from the set price of a ticket to the addition of any COVID-recovery fees (it's already happened with some airlines) as well as the (rising) price of oil. Then you also have the problem of previously laid-off pilots, flight attendants, agents, and mechanics.

By way of example, Air Canada recently announced it would start reactivating 2,600 jobs over the next months. This still pales in comparison to the total number of jobs that were lost during the pandemic.

What this means is that if Air Canada were to resume full (i.e., profitable) operations at its pre-pandemic levels, it would need to recall more staff. This only furthers my point about the reopening taking much more time.

In my opinion, while Air Canada will surely recover from its current position and return to profitability, that growth will not occur for some time. In other words, there are [far better options](#) for investors to consider right now.

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