Air Canada (TSX:AC) Stock: Should You Buy the Airline Stock?

Description

Air Canada (TSX:AC) has been through its fair share of ups and downs over the years, but 2020 was undoubtedly one of the worst years for the Canadian flag-carrying airline. With most of its services unavailable, the airline saw its wings clipped by the pandemic. The airline's revenues and capacity diminished, while its cash-burn rate continued to soar, taking a major toll on the company's bottom line and stock price.

Investor confidence in the airline began to recover with the hopes of economies and international borders reopening. The airline's investors have been waiting patiently to see it begin soaring again.

The resurgent virus continues to have an adverse impact on the airline's near-term prospects due to the Delta coronavirus variant. However, the ongoing vaccine rollout, an uptick in domestic travel, easing international travel restrictions, and a greater focus on diversifying revenue streams have led to a rise in its valuation.

Today, I will discuss the situation as it develops for Air Canada to help you determine whether it could be a worthy addition to your portfolio as a value stock or a stock to avoid.

Losses amid improved financial performance

Air Canada was forced to burn over $1 billion in the second quarter of fiscal 2021. Despite the massive losses, the airline managed to reduce its loss by almost $600 million from the previous quarter, making for some good news for Air Canada investors.

The most substantial point working in favour of the battered airline was that its revenues increased by almost 60% on a year-over-year basis, along with a significant increase in revenues from its cargo transportation segment.

The airline could see a substantial boost to its number of bookings, as travel restrictions ease up and mandatory quarantine periods become relaxed for fully vaccinated Canadians returning to the country. The airline's management anticipates that its net cash-burn rate will see a solid improvement by reducing to $3-5 million per day in the current quarter.

Rising travel demand

Supposing that the worst that the pandemic had to offer is behind us, reopening economies and international borders could result in rising air travel demand. Since the airline relies on international travel for most of its profits, positive development on this end could result in rapid recovery for the beleaguered airline stock.

Diversified revenue

The diminished air travel demand for domestic and international routes forced Air Canada to focus on expanding its cargo transportation business segment. After operating over 10,000 all-cargo flights since March 2020, Air Canada managed to offset some of the losses due to reduced passenger flights and even increased revenues from the segment.

Rising demand from the booming e-commerce sector and its dedicated freighters could provide more good news for the airline's cargo division and improve its financials moving forward.

Foolish takeaway

The airline's management is adamant about reassuring Air Canada's investors that there is a significant turnaround on the cards for the company. Considering that the airline's financial and operating performances have improved, there could be some hope for Air Canada investors in the company's ability to deliver stellar returns in the coming years.

However, the government bailout plan could not get it out of the hangar and flying again. The airline relies on its international operations for most of its profits. Reopening international borders could provide it the necessary boost to its recovery and share prices.

Air Canada might not be a screaming buy right now due to the short-term pain ahead of the airline because of the ongoing health crisis.

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