



Air Canada: Is This Stock Now a Buy?

Description

The **Air Canada** ([TSX:AC](#)) share price is down more than 20% from its 2021 highs. Investors who missed the big surge at the start of the year are now wondering if AC stock is [undervalued](#) and thus a good buy for their portfolios.

Air Canada financials

Air Canada reported [Q2 2021 results](#) that showed how difficult conditions remained for the airline in the first half of the year.

Net cash burn was \$745 million in the quarter or roughly \$8 million per day. Air Canada reported a Q2 operating loss of \$1.13 billion compared to an operating loss of \$1.55 billion in the same period last year.

On the positive side, the cash burn of \$8 million per day was less than the \$13-15 million the company projected earlier in the year. In the Q2 report, Air Canada provided cash burn guidance of as much as \$5 million per day for the third quarter.

The company secured access to nearly \$6 billion in government funds in April with some strings attached that might hinder the speed of a return to profitability. These include a mandate to restart cancelled routes to smaller towns and cities across Canada. Air Canada also has to follow through on the purchase of several aircraft it [cancelled](#) last year. The A220 planes are made in Canada and were part of the former CSeries order.

Air Canada also agreed to maintain employee levels at or above the staff count as of April 1, 2021. That's not likely an issue. In fact, the largest challenge for the airline industry right now is getting enough staff to meet rising travel demand.

Delta variant threat

The third wave of the pandemic that hit Canada and the world in the spring extended lockdown measures and reminded investors as well as travellers that COVID-19 is going to be around for a while.

The spread of the Delta variant now has some countries with low vaccination rates dealing with their worst COVID-19 conditions since the beginning of the pandemic. In countries where vaccination rates are high, rising cases and the threat of a major fourth wave among the unvaccinated segment of the population continue to impact travel plans.

Business travel uncertainty

Businesses are increasingly bumping the return-to-the-office date to early 2022. Corporate travel has picked up a bit in the past couple of months, but a return to the glory days of full business class seats is a ways off for Air Canada. In fact, some analysts wonder whether the lucrative business market will ever recover. Companies learned that they can get deals done via online meetings over the past 18 months. Many companies have saved millions in travel-related costs and are slashing their travel budgets as a result.

Business seats are the real moneymakers for airlines. If that segment doesn't rebound, investors will have to reset their earnings expectations for Air Canada and its peers.

Fuel price

High oil prices this year could put a big dent in margins just as the airlines are starting to increase capacity. Jet fuel represents as much as 20% of an airline's expenses, so the rally in oil could force Air Canada to raise prices. Travellers are already complaining about sticker shock and many might simply decide to avoid any non-essential flights if costs are deemed to be too high.

Should you buy Air Canada stock now?

Investors might be tempted to buy the dip from 2021 highs and there is certainly a chance the share price will regain the recently lost ground.

That said, I wouldn't back up the truck at this point. Air Canada is a much smaller company than it was prior to the pandemic. The timing of the return to profitability is uncertain and there are some serious headwinds to navigate in the near term.

I think AC stock still looks expensive at the current share price. New investors might want to search for other opportunities today.

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