Air Canada (TSX:AC) Stock: Avoid or Buy?

Description

Air Canada (TSX:AC) hasn't kept pace with the **TSX**'s upward momentum. The beleaguered airline company continues to struggle amid the pandemic-plagued environment. Investors have been waiting for the turbulence to change to air pockets soon. However, the share price is falling again and eroding the gains built since the start of 2021.

As of September 3, 2021, Air Canada trades at $24.02 per share, a trailing one-year price return of 32.71%. However, the year-to-date gain is just 5.49%. The price climbed to as high as $28.96 on June 9, 2021, but the rally didn't sustain. Market analysts have since downgraded its strong buy rating to a buy rating. Their 12-month average target is $30.38, or a potential upside of 26.5%.

Mixed predictions

Investors expected Air Canada to make a comeback and become TSX's top growth stock in 2021. The fourth quarter is fast approaching, yet dark clouds still hover Canada's dominant carrier. Some analysts say the airline stock will fly higher soon. Others have given up hope after six consecutive quarterly losses. Before Q1 2021, the company had 27 straight profitable quarters.

Continued impact of the pandemic

Air Canada President and CEO Michael Rousseau said the Q2 2021 results reflect the continued impact of the COVID-19 pandemic on the company and Canada's airline industry. While the actual cash burn ($8 million daily average) during the quarter was lower than expectations, the operating loss was a staggering $1.13 billion.

Management projects a lower cash burn of between $280 million and $460 million ($3 to $5 million per day, on average) in Q3 2021. The cash burn excludes eligible refunds of non-refundable fares under process. Air Canada draws from the government's $1.4 billion refund credit facility, so the refunds to customers are cash neutral.

Air Canada targets an 85% increase in the available seat capacity (ASM) in Q3 2021 compared to Q3 2020. However, the estimate is still 65% lower than the airline's ASM capacity in Q3 2019. Management's ongoing concern is adjusting capacity and adopting other measures in compliance with public health guidelines, travel restrictions globally, and passenger demand.

Beset with internal problems

Air Canada customers sought refunds for cancelled flights due to the pandemic. In September 2021, passengers are complaining about a wave of flight cancellations and rebooking. The airline wants to capitalize on the summer surge but is beset with labour shortages or crew constraints.

According to some displeased customers, the skeleton staff, including flight attendants, can't cope with the increased bookings. Some say airlines aren't hiring enough workforce because the passenger travel spike is temporary.

In June 2021, Air Canada's senior executives gave in to public pressure and disappointment. CEO Michael Rousseau and the company's executive vice-presidents chose to return their 2020 bonuses and share appreciation units voluntarily. Under the government's rescue package, Air Canada can't use the fund to buy back shares. Executives' compensation can only be up to $1 million a year.

Risky investment

I would have reservations about picking Air Canada today because a seventh consecutive quarterly loss is very likely. Furthermore, passenger travel won't return to pre-pandemic levels anytime soon. Dr. Brian Conway, medical director at the Vancouver Infectious Diseases Centre, said if people are waiting to get on an airplane until it's 100% safe, they will not ride a plane for the next year or two.

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