



## Is Air Canada Stock a Reopening Play?

### Description

There's no doubt about it. **Air Canada** ([TSX:AC](#)) stock is going through some extremely challenging times. It's operating at significant losses, much like when it was crawling out from the rubble of the Great Recession during the global financial crisis. In 2009, the airline survived by securing about \$1 billion through the help of a group of lenders, Export Development Canada, and the Canadian government.

This time around, Air Canada is navigating through the pandemic impacts. Its losses are much more severe than the amount experienced in the financial crisis. Specifically, its 2020 loss per share was three times the amount in 2008. The airline once again received aid. In April, the Canadian government provided a \$4 billion loan and took a \$500 million equity stake in the stock.

AC stock trades at about 8% below the April trading levels. That said, the stock is in a downward trend. So, interested investors should see if the stock will hold at the next support level, at about \$20 per share, before considering a position.

Although the \$4 billion loan is a low-interest loan with an interest rate of 1% per year, it'll still add \$40 million of interest expense per year. Let's not forget that sooner or later, Air Canada will need to pay back the principal as well.

Moreover, Air Canada doesn't just owe money to the Canadian government. It has other creditors as well. Its long-term debt-to-capital ratio is about 88%. This appears to be a high ratio, but it actually aligns with the ratios of the other North American airlines, which are going through similar headwinds.

Just how much debt does Air Canada exactly owe? It last reported that at the end of June, it had \$8.86 billion of long-term debt on its balance sheet, while its interest expense was \$159 million for the quarter. Assuming the interest expense stays the same, the annualized expense is about \$636 million for an interest rate of approximately 7.2%.

So, here we have Air Canada that's operating at a loss — a scenario that could continue until 2023. However, the stock price action is often forward looking. This is why [AC stock](#) has actually doubled from its pandemic market crash low and is on its way down again due to the drag from the pandemic

issue.

Assuming 2019 to be the normalized scenario, Air Canada normally brings in operating income of about \$1.65 billion that translates to net income of almost \$1.5 billion. In 2019, it also had long-term debt of nearly \$5.2 billion and cash of close to \$5.9 billion (versus \$5.1 billion at the end of June). So, assuming the operating environment normalizes tomorrow, it would take two to three years for Air Canada to pay off the excess debt.

## The Foolish investor takeaway

Air Canada is a cyclical company that's sensitive to the economic cycle. The current problem is that the demand for air travel is low due to the pandemic. The faster-spreading COVID-19 variants are a hindrance on the air travel recovery timeline. It's another question whether the air travel demand will return to normalized levels as soon as the pandemic is behind us.

There are simply lower-risk [growth stocks](#) out there with better balance sheets and a higher certainty outlook. AC stock is a speculative investment. So, interested investors should size their positions accordingly and have an investment horizon of at least three to five years. In that timeframe, it's possible for the stock to double your money. Again, as stated before, watch for that potential support at about \$20 per share.

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kayng

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