2 Reasons to Buy (and 1 to Avoid) Air Canada (TSX:AC) Stock

Description

Canada's airline industry seems to have gained traction this summer. After months of hoping for passengers to return, **Air Canada** (TSX:AC) is choking due to a travel surge in mid-month September 2021. The slumping airline saw air passenger traffic reach the highest in late August and early this month since the onset of the pandemic.

The outpouring of passengers hasn't reflected yet on the stock's performance, but it opens up a buying opportunity. Air Canada shares have fallen 18.5% since closing at $28.25 on June 15, 2021. At $23.02 per share, investors are ahead by only 1.1% year-to-date. There are two reasons to buy the growth stock and one to stay clear.

Vaccine-driven changes

Air Canada has long pleaded for the government to lift border restrictions and implement science-best testing. As vaccination ramps up and changes in border protections take effect, passengers slowly feel safe and comfortable booking flights.

The problem of Air Canada now is staffing. Flight cancellations and missed connections are prevalent because of staff shortages. According to reports, airport partners at Pearson airport are stretched beyond their capacity. An internal memo states that Air Canada needs extra personnel or all-hands-on-deck.

Air Canada is calling on volunteers from its salaried management to help at the Pearson airport. The airline continues to recall furloughed employees, and in the last two months, more than 5,000 are back to work. Independent airline analyst Rick Erickson said it's unusual to ask for volunteers in the industry. He adds that laying off workers is much easier than building the workforce back up.

Air cargo advantage

Air Canada's bread and butter is passenger travel, but its air cargo business is taking off. The $8.23

billion airline company lost $1.165 billion in Q2 2021, although its cargo division posted a record revenue of $274 million during the quarter. The figure is 33% higher than in 2020 and almost double compared to 2019.

Canada’s flag carrier saw the need to be more aggressive when global cargo capacity sunk sharply more than a year ago. Management shifted to dedicated cargo operations to address the slack while waiting for passenger travel demand to return. Air Canada was one of the first global carriers to modify its passenger aircraft for air cargo.

The change in business model and operating a pure freighter fleet did wonders for Air Canada Cargo. It was perfect timing due to the hypergrowth in e-commerce. Industry experts predict air cargo to grow at a compound annual growth rate (CAGR) of 4% to 6%. Management believes Air Canada will report improved Q4 2021 results due to cargo-only flights and increased bookings for passenger flights.

Temporary surge

Air Canada has done well in reducing costs and bringing down daily net cash burn ($3 million to $5 million per day in Q3 2021). The airline is also resuming more flights to several destinations. On August 9, 2021, Canada opened its borders to fully vaccinated U.S. visitors. However, the summer momentum could be temporary.

Many airline companies hope they’ve seen the last of the “do not travel” warnings due to very high COVID infection cases. Air Canada is back to square one if strict travel restrictions return. By November 2021, the country will also lift bans on cruise ships with more than 100 passengers.

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