



Why I'm Not Yet Bullish on Air Canada

Description

Everywhere we look lately, we see signs of the economy roaring back to life. Whether it's children returning to school, offices reopening for workers, or just businesses adjusting to new post-pandemic business models, things are changing. Unfortunately, airlines such as **Air Canada** ([TSX:AC](#)) aren't at that point yet and likely won't be for some time. In case it isn't obvious, I'm not entirely bullish on Air Canada recovering in the next year.

Let's understand some of the real problems

Airlines are seasonal, cyclical businesses prone to more disruptions than we can see. Apart from the weather (which can and has disrupted schedules), we have highly specialized staffing needs and soaring fuel costs.

Under the pandemic, we also now have to be concerned with vaccine mandates for staff and passengers alike. Passengers have to contend with different vaccine requirements and tests based on where they are flying out and flying to. Arguably, the same case could apply to flight crews flying to different countries. In other words, travel in these early days of an (arguably) post-pandemic world is confusing.

Moving on, let's talk fuel. Oil prices have shot up over 80% in the past year. With fewer people flying, this worked well to lower costs for airlines during the pandemic closures. But the resumption of a nearly regular schedule will ratchet up prices quickly. Expect those prices to be passed on to passengers. Not only will this offset the "deals" airlines are offering would-be passengers, but it could bring demand to a halt.

For airlines such as Air Canada, it's a no-win situation. It either has to absorb the costs and take the loss or pass the costs on to passengers and see already shaky demand plummet further.

That's hardly the case to be bullish on Air Canada. I also haven't even mentioned whether passengers will be comfortable cramming into a plane for several hours at a time with other people. After over year of social distancing and being in isolation, that decision could be one filled with panic for some.

Let's level-set expectations with some recent results

Air Canada provided updates for the second quarter earlier this summer. During that quarter, Air Canada reported revenue of \$837 million, reflecting a 59% (\$310 million) improvement over the prior year.

As impressive as those gains may sound (and they are), overall, the airline posted a loss of \$1.133 billion in the quarter. By way of comparison, in the same period last year, Air Canada reported a loss of \$1.555 billion. So, things are improving for Air Canada, but perhaps not to the extent or pace that some would hope.

To put that loss into context, Air Canada had a net cash burn of \$745 million during the quarter. This works out to the airline burning through just shy of \$8 million *per day*. Ouch.

That's hardly a case for being bullish on Air Canada at the moment. In fact, it would be relatively simple to find a [handful of better investments](#) that have nearer-term growth objectives.

Should you be bullish on Air Canada?

Fortunately, there is a solution to Air Canada's current predicament, and that solution is time: time for the population to be fully vaccinated, for the business to recover, and, perhaps most importantly, for would-be passengers to feel comfortable flying again.

To be clear, I'm not inferring that Air Canada won't recover. In my opinion, I think Air Canada will eventually get back to its former habit of announcing stellar earnings reports. When that does happen, the stock's current [discount](#) price will seem like an absolute bargain. Keep in mind that as of the most recent quarter, Air Canada has unrestricted liquidity of nearly \$9.8 billion that it can draw on. Again, Air Canada will survive and eventually thrive.

Now, for would-be investors, your path is clear. If you have a very long horizon, and you can stomach the risk for the promise of growth, Air Canada might be for you. Based on that long timeline and risk, I'm just not bullish on Air Canada at this juncture.

Alternatively, investors can opt for any number of [other stocks](#) to invest in. This even includes cargo airlines, which are very profitable and pay out a dividend, too.

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