



Should Air Canada Stock Be on Your Buy List Now?

Description

Air Canada ([TSX:AC](#)) is down considerably in recent months, and investors who missed the rally earlier this year are wondering if the pullback has run its course. Let's take look at the current situation to see if AC stock is a good buy for your TFSA or [RRSP](#) portfolio right now.

Air travel recovery

International travelers who are fully vaccinated can now visit Canada. That's great news for family and friends who have not had a chance to see each other for much of the past 18 months. This is also good news for Air Canada, which is counting on the return to service of long-haul flights to lead it back to profitability.

The company just announced the restart of non-stop flights to India after the government removed a ban on flights to the country. Air Canada will continue to ramp up capacity to international locations as demand returns and staffing challenges are resolved.

Air Canada cut its employee count by more than 50% last year. Now that air travel restrictions are lifting, the company faces difficulties getting enough people to come back to work. This is an industry-wide problem that might take time to get resolved and could delay the ramp up of new flights, even if people are willing to travel.

Airlines are also reporting strong winter bookings for sunny destinations. On the demand side, it appears things are moving in the right direction for leisure travel.

Business travel concerns

It could be some time before lucrative business travelers return to their comfortable seats in the front of the plane. Most people would agree that an in-person meeting is generally more effective than doing business on virtual calls through a computer screen. However, companies realized in the past 18 months that they can get deals done without spending a fortune on travel expenses for executives and

sales people.

Rising COVID-19 infections across the United States and Canada due to the spread of the Delta variant have forced many companies to delay their return to offices until 2022. As a result, it could be the middle of next year before corporate travelers become comfortable enough to start hitting the skies on a regular basis.

Another deterrent for the business crowd could be the long check-in delays caused by vaccine verifications.

The unknown for Air Canada and its investors is whether or not business travel will every fully recover to 2019 levels. Business class seats traditionally drive a good chunk of an airline's profits, and investors will have to adjust expectations if business people continue to stay home.

Fuel costs

Rising oil prices are driving up the cost of jet fuel just as airlines are starting to recover. Fuel costs account for as much as 20% of an airline's expenses, so there is a risk that full planes might not translate into profits, unless the airlines can get travelers to pay more for their tickets.

Financial results

Air passenger traffic surged in July and August this year. This could lead to better-than-expected Q3 2021 results, and investors will likely focus on Air Canada's net cash burn for the quarter. In the [Q2 2021 report](#) Air Canada said it expected net cash burn to improve from \$8 million per day in the second quarter to \$3-\$5 million in Q3. the airline reported a net operating loss of \$1.3 billion in Q2, so there is still work to be done before the company returns to profitability.

Should you buy AC stock now?

Air Canada trades near \$23.50 per share at the time of writing. That's down from the 2021 high of \$31 but still up nearly 50% in the past 12 months. Good news in the Q3 results could give the stock a lift before the end of the year on improved cash burn, but the road to profitability might be longer than the market expects, even if capacity ramps up in the coming months.

As such, I would search for other opportunities in the market today.

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