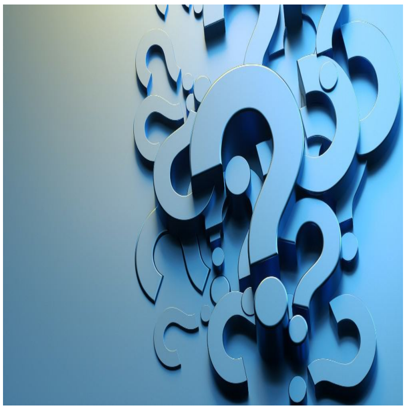

Will the New Vaccine Mandate Halt an Air Canada (TSX:AC) Recovery?

Description

Some businesses have adapted profitably to life under the pandemic. Others still continue to struggle, and that includes the airline industry. In fact, there are few if any industries that were more impacted than air travel. And just when you thought things were starting to turn around, there's now a vaccine mandate being imposed on airline travel.

Let's take a look at what this means for that much-hyped recovery at **Air Canada** (TSX:AC).

What exactly *is* the new vaccine mandate?

The latest vaccine mandate update came last week, announced by recently re-elected PM Justin Trudeau. The mandate sets October 30 as a deadline for passengers 12-years and older to have proof of vaccination before flying out of a Canadian airport. The mandate also covers rail and cruise ships, which will mean disruption in other segments, including cross-border travel, but I digress.

Some groups have welcomed the mandate, but the quick implementation leaves little time for the industry to absorb the effects.

Ontario requires proof of vaccination receipt that needs to be shown alongside a photo ID. In Quebec, a QR code on paper or downloading an app that shows your status will work too. Turning to B.C, a similar, yet different digital and/or paper card will be used.

While I understand and welcome the need for some type of proof, the lack of a unified standard, at least at the onset, could well lead to confusion. This makes me cringe at the validation effort needed for a flight from Montreal to Vancouver which has a connection in Toronto.

Oh, and I haven't even mentioned the impact this will have on international flights yet, but you get the idea.

Air Canada will recover – just not right now

Vaccine mandate aside, it's worth noting that Air Canada can, and will recover. The global pandemic has taken a heavy toll on all airlines. What prospective investors need to keep in mind is that challenging times are a familiar (and successful) turf for Air Canada.

In fact, if we take a look back at Air Canada's pre-pandemic performance, the airline was one of the best-performing stocks on the market. To put that into context, if we look back a decade, Air Canada traded for near $2 per share. At the time Air Canada was restructuring itself and coping with skyrocketing oil prices. The airline weathered that storm and emerged stronger and profitable. It will do so again, given enough time.

If we fast-forward to the current quarter, Air Canada is showing some improvement. In that most recent quarter, Air Canada reported revenue of $837 million. That figure reflects a whopping $310 million, or 59% improvement over the same period last year. Overall, the airline lost $1.133 billion in the quarter. In the same quarter last year, the operating loss was significantly deeper, at $1.555 billion.

If that doesn't sound painful enough, the net cash burn of the company during the quarter came out to $745 million. That works out to Air Canada burning through roughly $8 million per day during the quarter.

Final thoughts

Unfortunately, this new (very necessary) vaccine mandate will disrupt the prolonged recovery at Air Canada. Again, it's not about whether Air Canada won't recover. The key point is that Air Canada, and the market as a whole, will need more time to turn around from those deep losses.

For prospective investors considering Air Canada, it might be a better path to look at other, less volatile options in short term.

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