



Air Canada Stock Pullback: Should You Buy Now?

Description

Air Canada ([TSX:AC](#)) plunged as much as 10% on November 26 amid a broad market selloff triggered by news that a new COVID-19 variant with multiple mutations has emerged in South Africa.

Several countries have already suspended flights to South Africa and surrounding countries, but there are concerns that the effort might be too late. Cases of the variant have already been identified in Belgium, Hong Kong, and Israel.

New COVID-19 variant threat

Travel and energy stocks got hammered amid fears that new global travel restrictions will be put in place to try to stop the spread of the new COVID-19 variant.

Air Canada and other airline stocks took a beating, while the price of WTI oil fell 12% on concerns jet fuel and gasoline demand will once again evaporate. At the time of writing, Air Canada trades near \$21 per share compared to the previous close of \$23.30 and a 2021 high of \$31. The stock bottomed out around \$12 per share during the worst part of the crash in March 2020.

Airlines are just starting to get back on their feet. Canada lifted its restrictions on international travelers in September, and the United States only started allowing visitors a few weeks ago. If health officials determine that the new variant is more transmissible and can evade the protections provided by current vaccines, new global travel restrictions could go in place. Depending on the risks, international travel might be halted for weeks or even months.

Government financing exited

Just one week ago, Air Canada [announced](#) it was withdrawing from additional support from the Canadian government, citing an improved balance sheet and a rebound in travel bookings.

In April, Air Canada signed up for financial aid of \$5.375 billion in interest-bearing loans. The company

said it is exiting the agreement with \$3.975 billion in credit facilities unused.

In Q3 Air Canada completed \$7.1 billion in financing in the markets to give it the liquidity it needs to continue its recovery. That was based on the assumption the trend of adding new routes would continue through 2022 and beyond.

If global travel restrictions go into place again in the coming weeks, the company might find itself in another challenging situation. Analysts will start crunching the numbers to figure out if Air Canada has the liquidity to get through another travel shutdown.

Should you buy Air Canada stock now?

Investors who think AC stock is [undervalued](#) might want to wait to see how governments react in the coming days.

High fuel prices, reduced business travel, and staff shortages are already making it harder for Air Canada to generate profits. The wave of new budget airlines hitting the Canadian market will also make it difficult for Air Canada to raise prices, even if the recovery stays on track.

If new restrictions go into place, the share price could quickly revisit the 2020 lows. As such, I would avoid Air Canada stock today. There are other opportunities in the market that appear oversold and pay great dividends while you wait for the rebound.

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