



Why There Will Be No Recovery in 2021 for Air Canada (TSX:AC)

Description

When the pandemic began back in 2020, one of the hardest-hit sectors of the economy was airline travel. Despite there being hints of a recovery taking hold, those efforts now seem to be fading. This means that there will be no recovery in 2021 for Air Canada ([TSX:AC](#)), and likely not in 2022 either.

Why airlines are still feeling the pain

Placing tightly packed groups of strangers in an enclosed steel tube being hurled to far-off destinations is hardly the best way to stop the spread of a global pandemic. It's therefore no surprise that one of the first actions taken by nations around the world was to halt air travel from certain countries.

While that did stop the spread from being far worse than it actually was, it decimated the financials of airlines around the world. In the case of Air Canada, the airline saw a whopping 89% drop in revenue and a 96% drop in passengers at the height of those closures.

Fortunately, conditions for airlines and global travel have improved. In the most recent quarter, Air Canada reported operating revenue of \$2.103 billion. This represents nearly three times the \$757 million reported in the same period last year. Despite that improvement, Air Canada still has ways to improve. The airline ended the quarter with a \$364 million operating loss.

What we need for a recovery in 2021

For that long-awaited full recovery in 2021 to gain steam, three things need to happen.

First, the pandemic needs to come to an end. Whether this means reaching herd immunity, a fully vaccinated populace, or becoming endemic, it matters not. For as long as there is some risk of infection, Air Canada won't realize its full recovery in 2021.

Second, international markets need to harmonize their rules and fully reopen. There's still a patchwork of varying rules, regulations, and standards that apply to vaccinations and testing for international

travel, including some that are in conflict. Further to this, some markets just aren't open to travellers yet.

If Air Canada, along with the global air travel market, intends to recover, that harmonization and reopening needs to occur.

Finally, there needs to be a certain level of comfort among travellers. Even if the first two points are addressed, passengers are still needed on those planes. And making a decision to fly during a pandemic is a difficult decision for some people. In short, everyone has a different tolerance for risk.

How did things just get worse for Air Canada?

The one thing that could derail that recovery in 2021 just happened. Yet another variant, Omicron, was identified in several nations in South Africa. Since its initial discovery, that variant has crossed borders into other nations. As at time of writing, that also includes several cases of this latest strain identified in Ontario.

For investors, the best possible outcome has this latest variant slow the gradual resumption in global travel. In a far worse scenario, global travel grinds to a halt save for very exceptional circumstances as we saw last spring.

The most likely outcome is somewhere in the middle. Omicron will stifle global travel plans but will (hopefully) not result in another full lockdown. Some nations have already taken steps to halt air travel to and from impacted regions. That includes Canada, which has already blocked entry into Canada of foreign nationals of seven South African countries.

Air Canada's stock price is already feeling that expected pinch. In the past week, the stock has plummeted by over 8%.

The key point for Air Canada's current investors to keep in mind is that as with everything COVID, this variant will pass given enough time. When that does happen, Air Canada's recovery will resume and that stock price will once again climb.

For those prospective investors that are considering buying Air Canada, you may want to hold off for now. There are far better, [far less risky options](#) to consider buying at this juncture. Even better, many of those other options [offer a tasty dividend](#) too.

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