



WARNING: COVID Omicron Threatens Air Canada (TSX:AC)

Description

The COVID-19 pandemic is once again rearing its ugly head. And just like last time, it's a huge threat to airlines like **Air Canada** ([TSX:AC](#)). Just recently, a new COVID-19 variant dubbed "Omicron" was detected in South Africa. The new variant is thought to be 500% more contagious than the original and to possibly be vaccine resistant. A number of countries have already suspended travel to South Africa, a public health measure that will deprive airlines in the region of revenue.

As of today, the revenue impact of Omicron on Air Canada is hard to determine. The company has yet to report revenue for the current period, and the South Africa flight cancellations only started last week. Nevertheless, we can reasonably expect that if Omicron spreads worldwide, it could have a negative impact on Air Canada's revenue and profit. Here's how we know.

Air Canada lost a lot of money to the first wave of COVID

The first wave of COVID-19 caused Air Canada to miss out on revenue and lose money. In the second quarter of 2020, AC posted the following metrics:

- Revenue: \$527 million, down 89%
- Operating income: -\$1.55 billion
- Net income: -\$1.75 billion
- Passenger hours: 480 million, down 96%

It was a brutal quarter. In the second quarter of 2019, Air Canada was turning hundreds of millions in profit on billions in revenue. By the same quarter in 2020, it was losing billions on hundreds of millions in revenue.

All of this was a direct consequence of the first wave of COVID-19. The [first wave](#), which hit in March 2020, resulted in nation-wide lockdowns in many countries — including Canada. As a result, airlines were subjected to a number of revenue-depressing measures:

- International travel bans

- 14-day quarantines for travellers within Canada
- Extra security precautions at airports
- In some cases, the requirement to have a clean COVID test before flying at all

All of these measures heavily discouraged flying. In some cases, they made it impossible. The E.U. travel bans, for example, resulted in Air Canada simply cancelling its European routes altogether. Some were later re-opened, but a major outbreak of Omicron could put them in jeopardy once more.

Countries are implementing nation-wide lockdowns

Since the first wave of COVID-19 ended, public health measures have generally been more targeted than they were initially. Canada has long since abandoned nation-wide lockdowns in favour of a more targeted, local approach. But Omicron could change all that. This new variant is already leading to travel bans, and if it spreads, it could cause more. If key regions like the U.S. and the E.U. are affected, then [Air Canada's revenue will take a hit](#).

Additionally, we're now seeing nation-wide lockdowns in countries like Austria, Slovakia, and, potentially, Germany. Were nation-wide lockdowns to come to Canada again, then every province would implement 14-day quarantines on out-of-province travellers. If that were to happen, then AC would likely return to the kinds of revenue and earnings seen in Q2 2020 — that is to say, very low levels.

For the reasons outlined above, I'm staying away from airline stocks like AC for now. If Omicron outbreak blows over, then airlines will rise quickly, but if it turns into a replay of March 2020, we are in for some very difficult times. It's kind of a coin flip, and I'd prefer not to gamble on it.

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