



## The Omicron Variant Is Here: Should You Sell Air Canada (TSX:AC)?

### Description

The airline industry's worst fear is materializing with a new pandemic wave brewing. On December 2, Canada [found](#) nine cases of Omicron, a new variant of COVID-19 that could infect vaccinated individuals. This variant comes from South Africa, where the vaccination rate is low. It is too early to say how deadly and contagious this new variant is, but it is causing chaos. Travel restrictions are coming again, pulling **Air Canada** ([TSX:AC](#)) stock down almost 10% since the variant news broke on November 25.

### The current state of Air Canada

Trading at \$21, Air Canada stock has put its investors in doubt as to whether or not it can survive the Omicron variant. Fellow Fool contributor Adam Othman gave a beautiful analogy when describing Air Canada's plight: "When it comes to a fight, it's not about how many hits you take, but how many hits you can get up from." Every hit leaves you bruised, and bruises take time to heal. And time is what Air Canada doesn't have.

On September 7, the Canadian government allowed fully vaccinated foreign nationals to fly to Canada without quarantine after 18 months of lockdown. In fewer than three months, new restrictions are piling up. Air Canada didn't get a chance to recover from 18 months of hits. The airline reported its first positive net cash flow in November and now could see another cash burn if the travel ban grows.

### New travel restrictions in Canada

The World Health Organization (WHO) has said not to impose travel bans, but countries are trying to curb the spread. When it comes to travel restrictions, Canada is strict.

While the government is not outright banning foreign nationals from entering Canada, it has introduced a long list of rules:

- Any fully vaccinated person (over 14 days since the second dose) leaving or entering Canada

has to do the pre-departure and on-arrival test and stay isolated till the test results come. The government won't accept a rapid antigen test. This rule does not yet apply to flights from the United States, but it might soon if cases grow.

- As for unvaccinated people, they need to meet the 14-day quarantine requirement. They also have to do two tests on the first and the eighth day of the quarantine.

Over and above the testing requirements, Canada and other countries have imposed travel bans on several South African countries. These bans could extend and even expand to countries unable to control the virus. So far, +20 countries have reported Omicron cases.

## Can Air Canada survive the Omicron variant?

Air Canada feared another pandemic wave. Hence, it did not return the \$5.9 billion bailout money, even when it turned net cash positive in the third quarter. Instead, it raised more money to increase its liquidity to \$14.4 billion. Air Canada barely survived the pandemic, thanks to the bailout. It is difficult to say if it could survive another pandemic. Even if it does, the post-pandemic repercussions like high energy prices, labour costs, and stringent social-distancing norms could take a toll on the airline's profit.

The Omicron variant leaves a question. Is frequent travel ban the new normal for airlines? If so, it is high time that Air Canada comes up with a flexible business model that can adjust capacity as per demand. Instead of owning aircraft, AC could probably rent it, as it does with **Chorus Aviation**. But that is a long-term solution. The pressing issue at hand is, what you should do with your AC stock?

## Should you hold or sell Air Canada stock?

In my previous [article](#), I'd warned that AC stock is a double-edged sword, and it demands [active investing](#). It can either ride the recovery rally to \$33-\$35 or slump in the pandemic wave to below \$20. Sadly, the second scenario is materializing. If you'd bought the stock above \$25, you could sell the stock for a loss. You could recoup this loss from another stock like **Descartes Systems**, because Omicron could slow AC's recovery.

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