



Air Canada (TSX:AC) Stock: Brace for Turbulence!

Description

Air Canada ([TSX:AC](#)) stock is in a free fall. Down a full 21% over the last month, it is in its worst downtrend since March 2020. That month witnessed the first wave of COVID-19 in North America. It ushered in Canada's first (and, to date, only) true nation-wide lockdown, with all provinces being under public health orders at the same time.

A big part of that was a 14-day quarantine for travelers. Basically, if you travelled from one province to another, you had to self-isolate for 14 days. That heavily discouraged flying, which resulted in AC's second quarter revenue declining 89%. Things didn't get much better in the year's remaining two quarters; by the end of 2020, the company booked a whopping \$4.6 billion net loss.

Until recently, things looked like they were getting better for Air Canada. In its most recent quarter, the company reported higher revenue and a smaller net loss than in the same quarter of 2020. Things were looking up. But recently, a new development arose, one that cast doubt all of that progress. In this article, I will explore this development and what it means for AC shareholders.

Omicron variant spreading

The [Omicron variant of COVID-19](#) is a new mutation of COVID that is more transmissible than the original. It may also be deadlier and more resistant to vaccines. Little is known about the new variant, and countries aren't taking chances. Many nations — including Canada — have already suspended travel to South Africa, the country where the variant was first detected. Some European nations (e.g., Austria) have also brought back nation-wide lockdowns. If these measures come to Canada, then Air Canada's road to recovery is going to face a severe setback.

Even in its most recent quarter, the company hadn't fully recovered from its 2020 damage. It lost less money than it had previously, but it still lost money. In the third quarter, the COVID-19 restrictions in most parts of Canada were pretty mild, yet Air Canada still couldn't turn a profit. If Omicron turns out to be the major threat it's looking like it might be, then AC is going to lose a massive sum of money in the fourth quarter.

Air Canada's finances still haven't recovered

It's very important to note that AC is still reeling from the damage it took in 2020. Among other things, it has

- \$15 billion in debt;
- \$30 billion in total liabilities;
- Negative equity after subtracting goodwill;
- \$197 billion in [quarterly interest expenses](#);
- Negative operating income; and
- Negative net income.

These are some pretty grim facts. Although Air Canada's third quarter was much improved from the same quarter a year before, it wasn't "good" by pre-COVID standards. In 2019, Air Canada was a solidly profitable company that was soaring in the stock market. Today, it is under serious financial strain. If Omicron ends up threatening the country the way the first wave of COVID did, then AC could revisit mid-2020 prices. So, shareholders would be wise to prepare for some turbulence. At bare minimum, we will see a high level of volatility.

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