Air Canada (TSX:AC) Investors Could Lose More Than 10% in 2021

Description

If the government finds it necessary to close borders and reimpose travel bans due to Omicron, **Air Canada** (TSX:AC) would be at the losing end again. Canada's flag carrier proudly announced its exit from the federal aid program, because business is booming. We don't know if management made the right call now that another headwind threatens the airline industry.

Lockdown fears are back since the discovery of a new COVID strain in South Africa. On November 26, 2021, the TSX declined 2.25%, while Air Canada shares sank 8.92% to $21.24. The airline stock currently trades at $20.83 per share and is down 8.52% year to date. If the downward trend continues, the losses to investors in 2021 could be 10% or more.

IATA's objection to travel bans

The International Air Transport Association (IATA) objected to some governments' response to the emerging coronavirus variant. On December 2, 2021, IATA said there was marked improvement in domestic and international travel. If governments impose travel bans again, it will halt the recovery in air travel.

The association wants nations to heed the advice of the World Health Organization (WHO) not to panic. WHO told travelers to take a COVID-19 polymerase chain reaction (PCR) test and show a negative result before boarding a plane. Willie Walsh, IATA's director general, laments the knee-jerk reactions of some governments.

While air travel demand in October 2021 is down by under 50% compared to October 2019, it was a massive improvement from 2020. Walsh said, "October's traffic performance reinforces that people will travel when they are permitted to. Unfortunately, government responses to the emergence of the Omicron variant are putting at risk the global connectivity it has taken so long to rebuild."

The IATA head further added, "The ill-advised travel bans are as ineffective as closing the barn door after the horse has bolted." Last month, the association urged governments to simplify health protocols and implement digital solutions to process vaccine certificates. More importantly, COVID-19 measures must be proportionate to risk levels and dependent on a country's infection rate. There should also be a continuous review of the process.

Soaring revenues

Air Canada is still operating below pre-pandemic capacity, yet operating revenues are soaring. In Q3 2021 (quarter ended September 30, 2021), the figure reached $2.103 billion, or 177.8% higher than in the same period in 2020. The operating loss of $364 million was a 53.63% improvement from the operating loss of $785 million in Q3 2020. Notably, its cargo revenue breached $1 billion during the quarter.

Also, the effective cost-control measures and the favourable revenue and traffic trends resulted in a net cash flow of $153 million for the quarter. Regarding the Q4 2021 outlook, management plans to increase Air Canada's capacity by 135% versus Q4 2020.

Shortened recovery period

Rousseau said, "There's no textbook on this type of recovery or any in the history. There's no doubt we're very encouraged by what we see. And there's no doubt that the length of the recovery has moved in from the consensus of 2025 to at least 2024 and maybe 2023."

Investors hope that health officials nip Omicron in the bud. Air Canada, the growth stock, is ready to fly high and return to profitability soon.

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