Air Canada (TSX:AC) Stock: Avoid Travel Companies?

Description

The pandemic has decimated the airline and travel industry over the last couple of years. Even now, when three out of four people are vaccinated in Canada, the travel stats are far from their pre-pandemic levels, and that's before we factor in the impact of the new Omicron variant. According to Statistics Canada, in October 2021, the number of people traveling to Canada was only a fourth of what it was in October 2019.

Omicron disrupted the slow recovery of the travel industry at possibly the worst of times. Before summers, this would have been the holiday season to give the local and international travel industry a slight boost, but the fear of Omicron crushed that hope of recovery as well. According to a recent poll, almost four in five people said they aren't traveling by plane this holiday season.

The negative overview has pushed down travel stocks like **Air Canada** (TSX:AC) quite aggressively.

The airline stock

Like 2020, 2021 wasn't a good year for Air Canada. It broke through the $20-per-share mark, but that was about it. And it hovered around the $25-per-share mid-line almost throughout the year. The stock did spike in November, growing about 18% in less than a week, but it has been downhill since then.

The airline is facing another battle right now: weather. It publicly stated that the weather is doing more to disrupt their operations than the pandemic itself, though it is contributing to staff shortage and flight cancellations.

Air Canada is becoming an increasingly risky stock. With each blow that knocks the company down, the potential of it not getting back up again at all (declaring bankruptcy) or the need to become overburdened with debt just to stay operational becomes a concern.

So, even though it might seem like a discounted treat right now that might pay off huge in the coming years, though probably not by 2022 or 2023 as people previously predicted, it might be a good idea to exercise caution when considering this stock.

Another travel-related stock

It would also be a good idea to analyze a stock that's connected to a travel industry differently to understand the widespread impact of the new variant. **Points International** (TSX:PTS) is a Toronto-based company that focuses on loyalty solutions. It would have had a robust business model if it weren't for its reliance and partnerships in the travel industry.

Out of 16 programs it supports, nine are for airlines and five for hotel chains. Only one out of the 16 is a retail business. Still, Points International has gone through the worst of the financial impact of the pandemic, and its revenue has started getting closer to the pre-pandemic levels. This also reflects in the stock as well as the stock is currently just down 16% from its pre-pandemic levels.

Foolish takeaway

The difference between the two stocks shows that not all travel stocks are equally beaten down. Even airlines across the border are faring relatively well compared to Air Canada. The top three airlines are down (at worst) about 33% from their pre-pandemic valuation, which is significantly milder compared to Air Canada's 58% difference. Still, the overall bear market phase will likely continue for the next two years for the travel industry.

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