



Air Canada (TSX:AC): Is it Time to Buy the Airline Stock Right Now?

Description

Air Canada ([TSX:AC](#)) has been a popular investment for many Canadian stock market investors for a long time. It was widely regarded as a solid investment for investors in the pre-pandemic era. It enjoyed a particularly phenomenal decade in the 2010s as the travel industry saw significant growth during that time.

Unfortunately, the onset of COVID-19 resulted in a tougher start to the decade for the airline stock. Air travel restrictions to curb the spread of the novel coronavirus resulted in a global decline for airline companies. At its worst, Air Canada's revenues declined by almost 90% from their pre-pandemic levels. It posted five consecutive quarters of underperformance compared to when the pandemic wasn't in the picture.

The airline rebounded several times, only to see business decline due to more restrictions. The world is finally moving into a post-pandemic era. Air travel demand started recovering, and the stage looked set for a strong recovery. However, buying shares of the seemingly [undervalued stock](#) seems like it should wait due to more uncertain developments.

The war and its impact on airlines

February 24, 2022, saw Russia launch a full-scale invasion of Ukraine. When the war broke out, Western countries, including Canada, the U.S., the U.K., and EU countries enacted sanctions against Russia. Western countries canceled all operations in Russia and banned all airlines from flying over Russian airspace. The sanctions also resulted in Russia retaliating by banning all foreign aircraft in Russia from leaving the country, leaving approximately US\$15 billion worth of aircraft stranded there.

Airline leasing companies cannot collect payments from Russian operators due to the country being removed from the SWIFT network. Getting the planes back might not be an option if Russia decides to use the planes for domestic flights or spare parts if necessary. Things might not be good even if the planes are returned in good condition because they can impact global plane rental rates due to an oversupply.

Redirected flights

Several international flights traverse Russian airspace due to the convenient route it offers. The sanctions and airspace restrictions have forced many operators, including Air Canada, to reroute flights to multiple destinations across Asia.

Air Canada generates over a quarter of its revenues from international flights to the region. Rerouting those flights has added substantial fuel costs, longer flight times, and operational challenges. Air Canada already reported a net operating loss of \$3 billion for fiscal 2021. Due to the change in circumstances, additional operational expenses could spell more trouble for the battered airline in the coming months.

Foolish takeaway

[Oil prices have also risen](#) above US\$100 per barrel amid geopolitical tensions, hitting US\$126 per barrel at one point. Russia is one of the major oil producers worldwide, and continued sanctions mean that prices will likely continue rising.

Higher oil prices will eat into operational revenues for Air Canada and other airlines. Air travel demand will likely take a hit due to the current conditions. The broader airline industry was already struggling to recover from the pandemic-induced losses. The onset of war has made things more uncertain.

It might be better to hold off on investing in Air Canada shares until some of the [uncertainty](#) clears up.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise

7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. adamothonman
2. jguest

Category

1. Investing
2. Stocks for Beginners

Date

2025/08/20

Date Created

2022/03/18

Author

adamothonman

default watermark

default watermark