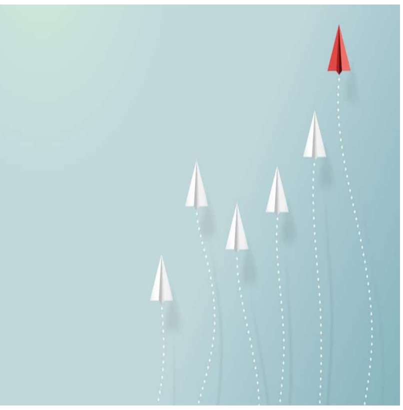

# Air Canada Stock – 3 Key Challenges it Must Surmount

### Description

**Air Canada** (TSX:AC) stock is in the middle of a bearish trend. Well down from its 2021 highs, it is in the midst of its second biggest drawdown after its initial COVID-19 crash in March 2020. It appears that investors aren't sure what to make of this stock. On the one hand, its revenue and earnings are improving compared to 2021. On the other hand, they still aren't positive, so the company is destroying shareholder value. In order to really be worth investing in, Air Canada has to swing to positive earnings eventually. In this article, I will reveal the three hurdles the company has to overcome before that can happen.



## COVID-19

COVID-19 has been the thorn in Air Canada's side in 2020, 2021, and 2022. The pandemic resulted in a number of restrictions on travel, including:

- Travel bans
- Mandatory self-isolation orders

These restrictions had the effect of reducing demand for flights. As a result, Air Canada's revenue tanked. In 2020, it ended up posting a $4.6 billion net loss. It ran another large net loss in 2021.

In order for Air Canada to recover, the country has to turn the corner on COVID-19. As long as COVID-19 outbreaks are occurring, public health measures may be introduced, and that will likely reduce demand for travel. In turn, it will reduce Air Canada's sales.

## Fuel prices

Having looked at one way the pandemic hurt Air Canada, we can now turn to a way in which the *recovery* is hurting it:

*Fuel prices.*

Oil prices have been rising this year, and jet fuel prices have been rising right along with them. The higher the price of fuel, the lower Air Canada's profits, all other things the same. In order for Air Canada to turn solid profits, it will need fuel prices to be at an at least manageable level. Either that or raise ticket prices, which may result in some customers opting not to travel. It's not a fun situation for Air Canada to be in. But it's one that the company will have to deal with if it wants its stock to recover to pre-COVID highs.

## Debt

Last but not least, we have debt. In order to cope with the COVID-19 pandemic, Air Canada took on a lot of new debt. Some of that was very low interest debt taken on as part of a federal government bailout, but it was debt nonetheless. Debt is a problem for a company like Air Canada because it creates interest expenses. AC already has over $100 million in quarterly interest expenses, and that figure will grow if the company has to borrow more just to stay afloat. So, debt is one aspect of Air Canada's financials that investors will want to pay close attention to. It has a major effect, not only on the company's balance sheet, but also on its profitability.



## Foolish takeaway

The three main hurdles that Air Canada has to overcome to return to profitability are COVID, fuel prices, and debt. Any one of them is a challenge. All three together? It's a lot to take on. Personally, I'm glad that I'm not invested in Air Canada at the moment.

**CATEGORY**

1. Coronavirus
2. Investing

**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. andrewbutton
2. jguest

**Category**

1. Coronavirus
2. Investing

**Date**
2025/08/18
**Date Created**
2022/03/20
**Author**
andrewbutton