Air Canada Stock: 3 Big Reasons I Won't Touch it With a 10-Foot Pole in July

Description

Troubles for **Air Canada** (TSX:AC) investors don't seem to be ending soon. Since the start of the pandemic in the first quarter of 2020, the Canadian flag carrier has been facing several challenges, which started with a big slump in travel demand. Every time investors expect these challenges to gradually subside with an expected recovery in demand, Air Canada is suddenly faced with new challenges, driving its stock lower. After rising by nearly 15% in the first quarter this year, AC stock tanked by about 34% in the second quarter. As a result, Air Canada's stock price is now hovering close to $16 per share with about 24% year-to-date losses. Let me highlight three big reasons why I'd avoid buying AC stock in July.

Fears about a looming recession

In the last few months, growing inflationary pressures have started cutting into corporate earnings. In addition, rising geopolitical tensions have triggered a massive rally in oil prices, which directly increases the cost of airline companies, including Air Canada.

These factors have played a big role in forcing central banks in the United States and Canada to take aggressive monetary policy measures to tame inflation. In such a scenario, rapidly rising interest rates have fueled talk of a looming recession. Recession fears were one of the key reasons why the main **TSX** benchmark tanked by 9% in June, posting its worst monthly losses in over two years. During the month, AC stock also slipped by 27.7%.

While nobody can accurately predict a recession in advance, fears of a recession are enough to force people to cut their discretionary expenses, including on air travel. Given that, I would prefer to stay away from Air Canada stock, at least for now.

Emerging staff shortage concerns

Usually, summer is a busy time for the airline industry, as millions travel by plane over the holidays. However, this summer, most American and European companies are struggling with staff shortages at the airports, which is leading to unprecedented delays and flight cancellations. Some large American airline companies are expecting these staffing problems to persist even beyond this summer. And the situation in Canada doesn't seem to be any better.

Although Air Canada started preparing for the summer season months in advance, it recently had to make some big adjustments to its summer 2022 schedule, reducing flight frequencies or temporarily suspending its flights on many routes. Clearly, this is not a situation where you can expect Air Canada stock to stage a big recovery in the near term.

Delayed financial recovery

I would have happily ignored the above two big factors if Air Canada had made any significant progress towards its post-pandemic financial recovery in the last few quarters. But unfortunately, that's not the case. In Q1 2022, Air Canada reported $900 million in adjusted net losses — less than its adjusted net losses of $1.25 billion in Q1 2021 but significantly higher compared to a $450 million loss in the previous quarter.

Moreover, continued high jet fuel costs, recession fears, and staffing issues will likely delay its financial recovery further. That's why long-term investors may want to focus on some other fundamentally strong cheap stocks right now instead of waiting for a big recovery in Air Canada stock.

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Date
2025/09/06
Date Created
2022/07/06
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