



Is Air Canada (TSX:AC) Stock Approaching its Pandemic Lows?

Description

Canada's largest passenger airline stock **Air Canada** ([TSX:AC](#)) has been trading weak this year. It has lost 25% in the last six weeks. As consumer discretionary spending is expected to dry up amid the potential recession, the flag carrier will likely see a much-delayed recovery going forward.

AC stock: Steep challenges to delay recovery

The pandemic already threw the aviation industry several years back. However, since the vaccine launch, airline companies have been seeing steady recovery on the top-line front. Air Canada saw its revenue surge 180% year over year in the last 12 months.

It rightly shifted its focus from passenger operations to cargo during the pandemic. In 2021, its air cargo revenues more than doubled compared to those in 2019. Perhaps, an economic downturn will likely hit the surging demand, which has been the main reason behind the stock's recent weakness.

Rising jet fuel prices are another thorn in the sector's recovery as they form some 30-40% of the total cost of operations. However, a steep increase in flyers gives [airline companies](#) a reasonable pricing power to pass on the higher cost burden to them.

More importantly, if crude oil prices hit US\$120 a barrel level again and sustain at higher levels for longer, it would not bode well for the industry. We might see a significant hit on profit margins and deferred recovery in that case.

Air Canada has seen a relatively slower recovery compared to its U.S. counterparts, thanks to Canada's stricter pandemic rules compared to south of the border.

Air Canada reported a net loss of \$974 million in Q1 2022, doubling from Q4 2021. However, the net loss figure was lower from \$1.3 billion in Q1 2021.

Air Canada: Debt profile

Coming to Air Canada's debt profile, it currently has total debt of \$16.2 billion and cash and equivalents of \$8.6 billion. That brings its net debt to \$7.6 billion. The debt profile has significantly increased since the pandemic but looks relatively better compared to peers.

Also, Air Canada's substantial liquidity position will likely allow it to pay for capital expenses through accruals, not straining its balance sheet much. In addition, Air Canada management expects its net debt-to-EBITDA ratio to reach one by 2024. U.S. airline companies have much higher debt burdens and higher leverage ratios. Air Canada's current ratio, which indicates its ability to repay short-term obligations, stands at 1.3.

However, a prolonged recession could upturn things for global airlines and for Air Canada, too. In that case, lower cash flow from operations will accelerate its cash burn and might force it to reach lenders.

AC stock plunged close to \$9 amid the pandemic. Those levels still look like a highly remote possibility. A length and severity of a potential recession will be a key driver for Air Canada and peer airlines.

Conclusion

I have liked Air Canada for long. The management knows the importance of a strong balance sheet in this shaky industry. In addition, its leading market share and operational efficiency will drive its recovery in the long term. However, AC is unlikely to see fast-paced growth. If you are a long-term, patient investor, you can consider adding AC at current levels.

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. kduncombe
2. vinitkularni20

Category

1. Investing
2. Stocks for Beginners

Date

2025/09/08

Date Created

2022/07/08

Author

vinitkularni20

default watermark

default watermark