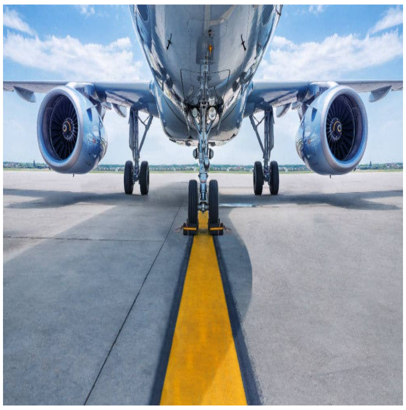

Should You Buy or Sell Air Canada (TSX:AC) Right Now?

Description

The airline industry worldwide saw nothing but devastation due to the pandemic. The initial shock and confusion wore off to allow Canadian stocks across many industries to find viable alternatives to generate revenues in the new normal. However, the pandemic-led restrictions forced airlines across the board to ground their commercial flights due to a lack of alternative options.

Airline stocks nosedived and continued to burn cash to keep their fleets in good condition, despite virtually zero demand for passenger flights at the height of the pandemic. **Air Canada** (TSX:AC) stock began showing signs of life when the world slowly started moving into a post-pandemic era. The airline also increased its focus on cargo flights to bring in revenue while its passenger flights were grounded.

Unfortunately, the situation has taken a turn for worse again for the battered and bruised Canadian airline. Air Canada managed to increase its revenues threefold after restrictions were lifted, but higher crude oil prices have increased its operating costs by a considerable margin.

Air Canada has fared better by staying afloat in recent months. Several airlines have filed for bankruptcy due to their rising debt levels and higher operating costs.

Air travel demand is considerably high

There was a time when Air Canada did not have enough people who wanted to fly their passenger flights. Now, it is facing too many passengers. The overwhelming number of passengers has combined with cancellations and delays to make it one of the worst-performing airlines worldwide.

The pent-up demand was what kept Air Canada investors hopeful about its recovery. It could help the airline finally reduce cash burn and start bringing in healthier cash flows.

Unfortunately, the geopolitical tensions due to the Ukraine-Russia war have led to uncertainty in global oil supplies. Higher oil prices mean operating expenses go up for airlines. Consumers are also facing record inflation levels and contending with higher interest rates.

The result is a slow demand that could lead to more troubles for the airline.

Delays in its recovery

Air Canada's expected financial recovery in a post-pandemic era has failed to bear fruit. The company started making significant progress toward recovering some of its substantial losses incurred amid the pandemic.

However, the first quarter of fiscal 2022 saw Air Canada report $900 million in net adjusted losses. While its losses were lower than the previous year, it reported a higher loss compared to the fourth quarter of fiscal 2021.

Foolish takeaway

Air Canada stock trades for $16.66 per share at writing. It is down by 24.85% year to date and almost 38% from its 52-week high. The considerable discount from its 52-week high might make it appear attractively priced. However, it might not be the best time to invest in its shares at current levels

Air Canada still carries a $16 billion long-term debt, which is almost thrice the size of its $5.98 billion market capitalization. A further deterioration in its operating margins could make the debt unsustainable for the company. If the much-feared recession hits and stays for long, Air Canada stock could plunge to as low as $2 per share.

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