



Can Air Canada Stock (TSX:AC) Double Your Money in 2020?

Description

Air Canada ([TSX:AC](#))(TSX:AC.B) has started the year with the strong momentum. Its stock hit a new record high on January 13, after surging more 90% in 2019. The question going forward is whether AC stock could show a similar strength again this year.

It's, of course, impossible to predict where any stock will be trading in the next six or 12 months, as there are so many factors that could influence the business and future expectations.

After hitting a record high last week, Air Canada stock is reacting to global anxiety over the spread of a new SARS-like coronavirus virus from China, that if spreads could slow international travel.

Authorities in the country say the outbreak is controllable ahead of the new-year travel season where hundreds of millions of people make journeys for the holidays. For investors, the memories of the impact of the SARS outbreak are reviving. At the time of writing, Air Canada stock was down about 4% to \$49.25.

Apart from these short-term risks, however, I don't see any major threat to [Air Canada's strong growth momentum](#). In fact, the economic climate looks more favourable for cyclical stocks such as Air Canada in 2020 than it was last year.

Improving macro environment

First, the U.S. and China — the world's two largest economies — have been able to avoid a full-blown trade war with the potential to hurt growth and push the global economy into a recession. After signing the first phase of their trade deal last week, the chances of a comprehensive arrangement are now quite bright.

Another favourable factor that's very important for the growth of airlines is the cost of fuel. It's now becoming quite clear that oil markets are well supplied and the era of higher oil prices is almost over. New discoveries and efficiency gains at existing fields mean oil supplies will abound for a long time to come.

Is this strength an indication that Canada's largest airline will continue to prove a successful bet in 2020? In my view, the macroeconomic conditions are right to expect that outcome.

In the last quarterly report, Air Canada generated record operating revenues of about \$5.6 billion and reached record liquidity of nearly \$7.4 billion.

The airline achieved these impressive results despite the serious disruption to its operations and to the cost structure created by the **Boeing** 737 MAX grounding.

For the quarter ended December 2019, analysts are expecting \$0.36 a share profit, up from \$0.2 a share a year ago, with sales rising 7% to \$4.52 billion. The company is scheduled to release its fourth-quarter earnings report on February 18.

Bottom line

Air Canada has been [a great turnaround stock](#) that provided massive returns to investors during the past five years. In my view, that run of excellent returns is not over yet, with the global macro environment improving and fuel prices remaining low.

That said, Air Canada stock doesn't come cheap after a powerfully rally of the last year. Investors should wait on the sidelines to take advantage of any potential weakness and enter this trade when the stock price is more favourable.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

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