



Air Canada (TSX:AC) Stock: Could it Double Before 2021?

Description

If you were to base it on the stock price movement, **Air Canada** ([TSX:AC](#)) is showing signs of life. One of the world's largest airlines and the country's flag carrier is still standing despite the [absence of a federal government bailout](#). You're not even sure if a direct aid is coming.

Anyway, you can marvel at the resiliency of the airline stock. Air Canada was [given up for dead](#) when it sunk to \$12.15 on March 19, 2020. At the close of trading on June 1, 2020, the price is \$16.41. The 35% climb is a positive sign, although year to date, investors are still losing by 66.2%.

But could Air Canada double before 2021? The airline company must overcome all odds to creep up to \$32 or \$33. Let us look at the chances.

Quicksand

Air Canada is drowning in quicksand and could submerge if funding doesn't come in time. The airline company needs to raise more than US\$1billion for working capital and cover other general corporate purposes. Its cash position is precarious.

Management is securing additional funds by issuing 30.8 million shares to raise US\$363 million. The company will also issue convertible senior convertible notes (maturing on July 1, 2025) to raise US\$650 million.

Currently, about 225 planes are in the hangar since capacity is down to 10%. Most of its 38,000 employees are paid salaries from the Canada Emergency Wage Subsidy (CEWS) program. Soon, 20,000 will be out of the payroll.

Air Canada is also stalling, if not outright refusing, to return \$2.6 billion in advance ticket sales as of March 31, 2020. The company can offer at best a "goodwill" refund policy with no money out. It needs to preserve cash to stay afloat.

Credit rating downgrade

Credit ratings should matter to prospective investors. Moody's Investors Services has downgraded its rating of Air Canada. The downgrade from Ba1 to Ba2 means the rating agency has a negative outlook. They foresee the coronavirus scare and the uncertain trend in passenger demand to extend throughout 2021.

Moody's is zeroing in on the passenger airline industry. The agency believes this sector is most significantly affected by the credit shock given the travel restrictions. Besides, the COVID-19 outbreak is a social risk and, therefore, overly sensitive to consumer demand and sentiment.

Industry outlook

Apart from the inadequate liquidity at the moment, I would refer to the International Air Travel Association (IATA). Similar to the position of Moody's, IATA maintains a dark outlook. The association expects air travel recovery to lag economic activity.

Even if governments start opening borders and relaxing travel restrictions, consumer confidence in air travel will not return instantly. Physical distancing is also a challenge. Air Canada is preparing to resume selected flights. The main question, however, is how airline companies can cope financially with fewer passengers in every plane.

Realistic view

I respect the forecast of some analysts that Air Canada could climb to \$46 in the next 12 months. It's certainly possible if revenues and capacity return to 2019 levels in the next couple of months. I will focus on the here and now. Air Canada will survive against all the odds.

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