Air Canada (TSX:AC) Stock: Why it's Below $20 Again

Description

Last week was a rough one for **Air Canada** (TSX:AC) stock. Despite a huge rally on Thursday, the stock closed 11.4% lower than its Monday opening price of $21.9. After big gains in the early weeks of June, the stock is once again below $20, with a quoted price of $19.4 as of this writing.

For those who have been following airline stocks, this should come as no surprise. The big airlines have all come out saying they expect to take several *years* to recover from COVID-19 restrictions. Air Canada said it would take three years just to get back to 2019 revenue levels, citing lower passenger volume. Taking Air Canada's own expectations as an indicator, it should come as no surprise that its stock is way down.

However, not everyone is so bearish. On Thursday and Friday, AC shares staged a monster rally, rising 8.5% in just two days. That wasn't enough to offset the losses earlier in the week, but it was still impressive. Given the stock's dramatic late-week turnaround, it's natural to wonder if it's set for big gains. To answer that question, we need to look at why AC has behaved as it has so far.

Broader market moves

AC is an extremely volatile stock, with a 2.06 beta coefficient over the last five years. When the market moves, Air Canada moves more. So, it should come as no surprise that the stock gave investors such a roller-coaster ride last week. On Thursday, the markets took their steepest slide since March, followed by a recovery on Friday. In light of this, we could see AC's big dip as it just being a volatile stock moving with the market. However, AC actually made gains on Thursday, which was a loser for the market as a whole, so there's clearly more to this story.

Reopening and the second wave

AC's moves last week could be seen as responses to its prospects of recovering from COVID-19.

Last week saw markets crash on news that a "second wave" of COVID was developing in U.S. states like Texas and Arizona. Such a development would be bad news for Air Canada, as it would imply further travel restrictions — particularly to U.S. destinations. The “second wave” narrative could easily explain why Air Canada stock tanked last week.

Ditto for the surprise rally on Thursday. On Wednesday, Air Canada announced that it would be re-opening several routes starting in July. That was one bright spot in a sea of otherwise negative news, which could help explain why AC stock jumped a day after it was announced.

Foolish takeaway

Regardless of how swiftly Air Canada recovers, much of the financial damage from COVID-19 has already been done. Just recently, the company had to roll out a $1.6 billion financing package to cover expenses. This diluted shareholder equity, meaning that each share now has a smaller claim on earnings. So, this stock may rise from its current price, but it’s unlikely to get back to pre-COVID highs anytime soon.

CATEGORY

1. Coronavirus
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Investing

Tags

1. Editor's Choice

Date
2025/08/25
Date Created

2020/06/15
Author
andrewbutton