



Why Air Canada (TSX:AC) Stock Gained Close to 14% Overnight

Description

Shares of **Air Canada** ([TSX:AC](#)) gained momentum on Wednesday to close 13.8% higher. Air Canada stock closed trading at \$18.2 after **Moderna** announced that its phase one trials for the COVID-19 vaccine showed positive results and developed high levels of antibodies. The pharma company [will soon be launching](#) phase three trials with over 30,000 vaccine candidates, according to a *Canadian Press* report.

The stock markets rose on optimism that a vaccine may be developed sooner rather than later, which will help kickstart the global economy. The COVID-19 pandemic has already claimed over 586,000 lives and infected 13.7 million to date.

However, on the flip side, it's quite possible that investors are overly optimistic about any news surrounding the development of a vaccine. Even if a vaccine is successfully developed by the end of the year, it still has to reach the global populace of 7.2 billion people, which can take several months.

Will Air Canada stock bounce back in the second half of 2020?

While Air Canada stock moved higher yesterday, it's still trading 65% below its record high. Prior to the dreaded pandemic, the stock was one of the top-performing companies on the **TSX** in the last decade and gained around 3,500%. Canada's airline heavyweight reported 27 consecutive quarters of year-over-year revenue growth until the fourth quarter of 2019.

The ongoing pandemic brought the airline and tourism industry to its knees, as global and domestic travel came to a standstill. Air Canada stock fell to a multi-year low of \$9.26 in March 2020 before it recovered to current levels.

The second-quarter results will be out shortly, which will be the worst ever quarter for the airline giant in terms of revenue decline. Analysts tracking the company had forecast sales to fall by a massive 90.7% to \$442.29 million in the second quarter, down from \$4.76 billion in the prior-year quarter. Its earnings per share are expected to fall from \$0.88 to -\$3.72 in this period.

If the COVID-19 vaccine is successfully developed and deployed, it may take around three years for airline capacity to reach pre-pandemic levels, according to experts. For example, Air Canada reported record sales of \$19.1 billion in 2019 and this might fall to \$7.84 billion in 2020. While revenue is forecast to rise by 83% in 2021, it will still be 25% below 2019 figures.

Air Canada recently announced it is reducing domestic routes due to low demand which means people are not unwilling to fly, despite the easing of lockdown restrictions. Further, the airline sector is one of the worst affected during an economic downturn. With a rapid spike in unemployment levels, people are likely to delay their travel plans indefinitely.

The Foolish takeaway

The airline industry is a capital-intensive one and [has experienced multiple shocks](#) since the advent of commercial flights. While Air Canada has raised enough capital to improve liquidity, there is a lot of uncertainty surrounding this sector.

Air Canada's management team confirmed our worst fears and said, "We're now living through the darkest period ever in the history of commercial aviation, significantly worse than the aftermath of 9/11, SARS, or the 2008 global financial crisis ... And there is little doubt that we are not yet out of the trough."

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