



## Is Air Canada Stock About to Take Off?

### Description

**Air Canada** ([TSX:AC](#)) is up nearly 20% in the past month. Investors with a [contrarian strategy](#) are wondering if the recent surge is finally the start of an extended recovery in the stock.

### Air Canada stock price

A quick look at Air Canada's stock price over the past decade explains the strong interest in the stock by investors. After the Great Recession, fuel prices soared and Air Canada's profits plunged. The stock rose from close to \$20 per share in 2007 to below \$1 in 2009 and 2012.

The subsequent rally over the next eight years made Air Canada one of the best-performing stocks on the **TSX Index** through the start of 2020 when the share price topped \$50.

The arrival of the pandemic, however, quickly ended the party. In a mere four weeks Air Canada's stock price fell more than 75%, hitting a March closing low around \$12. Since then, the stock has been volatile, trading in a range of \$15 to \$23. At the time of writing, investors can buy Air Canada stock for about \$18 per share.

### Upside opportunity

Air Canada moved quickly in the spring to capitalize on demand for corporate debt and airline stocks. Management raised significant capital, bringing liquidity close to \$10 billion. In the spring Air Canada was burning through more than \$20 million in cash per day, so it was crucial to shore up the balance sheet.

In June Air Canada cut roughly 20,000 jobs, representing more than half of its staff. The drastic move came as Q2 passenger numbers fell 96% compared to the same period last year.

Looking ahead, everything depends on the lifting of travel restrictions by Canada and other countries. For the moment, Canada is closed to all visitors, even Americans. A change in that situation isn't likely

until COVID-19 vaccines are widely available. Fortunately, it looks like this could be the case beginning in the first half of 2021.

Once the coronavirus vaccines arrive, demand for air travel is expected to increase as governments remove restrictions.

## Risks

The reopening of the economy has led to new waves of the pandemic in many countries. The United States, in particular, is dealing with a major surge in COVID-19 cases. The U.S. market is important for Air Canada and fears about health risks could keep millions of Canadians from taking their annual trips south of the border.

Air Canada already said it doesn't expect capacity to return to 2019 levels for at least three years. This is in line with predictions from executives at most major international carriers. That's a long time for investors to wait for a return to previous profitability.

Going forward, nobody knows whether business people will resume their previous habits. The success of video conferencing during the pandemic might permanently alter the way sales people and their clients interact. In-person team meetings might also get reduced. Flying hundreds or thousands of people into town for a corporate event is expensive.

Fuel prices also deserve consideration. Oil remains cheap today, with West Texas Intermediate (WTI) trading around US\$42 per barrel. That keeps jet fuel prices reasonable. Fuel remains the highest expense for the airline industry.

Pundits say the massive investment cuts made by energy companies will eventually lead to a supply squeeze and a potential surge in oil prices. Some analysts anticipate a rally back above US\$100 per barrel in the next five years. If that happens, Air Canada and its peers will struggle.

## Should you buy Air Canada stock today?

Investors who are of the opinion air travel restrictions will disappear in the first part of 2021 might want to take a speculative position in Air Canada on additional weakness.

That said, risks remain for the industry. Air Canada went bankrupt due to SARS and nearly went through the process again in the wake of the financial crisis, so it is possible more pain could be on the way before the eventual recovery. The worst is probably over for Air Canada, but we just don't know.

Ongoing volatility should be expected. If you prefer lower-risk bets, it might be best to seek out other [cheap stocks](#) that at least pay attractive dividends.

### CATEGORY

1. Coronavirus
2. Investing

### 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

## **Date**

2025/09/09

## **Date Created**

2020/09/07

## **Author**

aswalker

default watermark

default watermark