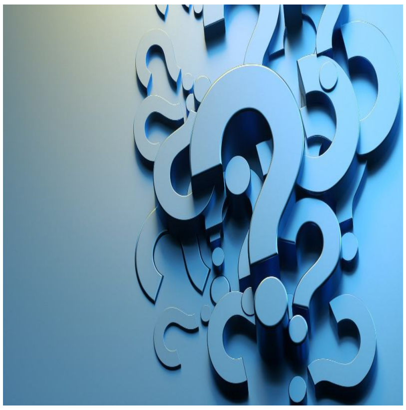

Why Did Air Canada (TSX:AC) Stock Surge Over 15% in 2 Weeks?

Description

Air Canada (TSX:AC) has been making the headlines lately, as it gets desperate to put its planes back into international skies. But the Canadian government keeps extending international travel restrictions. The new extension is till September 30, which marks 193 days of travel restrictions. Despite the restrictions, AC stock surged 16.5% in the last two weeks to $18.63. Is this rally sustainable?

After losing 75% of its valuation in the March market crash, AC stock has become highly sensitive to news. The stock has been hovering in the range of $14-$20 since April, which represents a 40% upside and 30% downside. Even now, the stock has not surpassed this range, as it is reacting to the news and not the fundamentals.

Air Canada starts voluntary COVID-19 test trial

AC has been calling on the government to look for more feasible alternatives other than border restrictions and the 14-day quarantine requirement. But Prime Minister Justin Trudeau continued to extend the restrictions to ensure the safety of the people. This time, the airline came up with a logical, data-driven method to convince the government to think of other alternatives.

From September 3, AC started conducting voluntary COVID-19 tests of passengers arriving at Toronto's Pearson airport. The airline aims to collect sufficient data to convince the government to adopt a more scientific and evidence-based approach to the 14-day quarantine. It remains to be seen if this trial succeeds in opening up international travel.

Air Canada revamps Aeroplan loyalty program

In the hopes that international travel will resume before the holiday season, AC is revamping its Aeroplan loyalty program. The new plan will come into effect on November 8. It will change is the way members can earn points. AC is accelerating its retail, hotel, and credit card partnerships to allow members to earn points on their everyday purchases. Moreover, the program will calculate the points earned on a given flight based on airfare rather than distance. This fits in perfectly when international travel is restricted.

To increase the passenger load per flight, it is introducing a flexible pricing model. It will charge more points for popular routes at peak times and lower points on off-peak hours and less-popular routes. All these changes will help AC improve its profit margin per passenger.

Is the stock rally sustainable?

The new changes like COVID-19 test booths and margin-focused loyalty programs look promising. AC will accelerate its efforts to encourage people to fly again. Its stock rallied over 15% on the back of these new initiatives that show the airline is ready to fly in the COVID-19 economy. But there are many roadblocks on its runway that are preventing its planes from flying internationally.

Even if international travel restrictions are eased, it is unclear whether the airline would see pent-up demand or subdued demand. Most long-distance flight passengers, especially business class passengers, may not return to frequent travel until a COVID-19 vaccine is in place. Hence, the current stock rally is not sustainable.

AC is expecting international travel to return to the pre-pandemic level by 2023 and is prepared to withstand the blow until then. It has halved its workforce, reduced its fleet size by a third, pumped up liquidity to $9.1 billion, and cut many travel routes to slow the cash burn. But if it takes longer than three years, AC could be at risk of filing for bankruptcy.

In conclusion, until there are material changes in AC's fundamentals its stock rally may not be sustainable. The next three years will determine whether AC stock falls to $0 or rises to $30.

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