



## What Are the Odds of Air Canada (TSX:AC) Stock Rising to \$30?

### Description

The month of September started on a bearish note for the stock market. The **TSX Composite Index** fell 3.6% in three trading sessions. The stocks that noted the biggest gains in the market rally fell the most in the three trading sessions. Even **Air Canada** ([TSX:AC](#)) stock that surged more than 15% in the last two weeks of August fell 4.4% in the market correction.

The market is very volatile at the moment. It is at the brink of a crash as the TSX Composite Index is showing a similar trading pattern it showed in late February. If the index falls below its 200-day moving average, it could be the beginning of the second market crash. Now, is it a good idea to bet on AC when the market is nearing a crash?

### Is Air Canada stock rally sustainable?

In a market crash, almost all stocks fall as investors' panic sell. Even the fundamentally strong stocks see a dip. Air Canada stands no chance to withstand another crash as the travel restrictions have dampened its fundamentals and pushed it into a deep red. This is also visible in its stock price. AC stock lost 75% of its valuation in the March sell-off. Even after rising 15% to \$18.6 in September, AC stock was trading 60% below its pre-pandemic level of over \$45.

AC stock price has been hovering between \$14 and \$20 since the pandemic. This price range would probably continue for another 12 months until there is a significant change in its fundamentals. For instance, the 15% rally in August [came on the back of](#) AC's attempts to convince the government to open borders.

AC has set up COVID-19 testing booths on the Toronto airport to collect data on the effectiveness of this approach. It is proposing a more scientific, data-driven approach to the 14-day quarantine requirement for international travelers. Then, it is also revamping its [Aeroplan loyalty program](#) to encourage people to travel more. The new plan will take effect on November 8 and help the airline make more profits per passenger.

All these attempts can increase AC's stock price to \$20 or \$23. But they can't increase the stock price

to \$30.

## What are the odds of Air Canada stock rising to \$30?

For AC stock to rise to \$30, there has to be a significant change in the company's fundamentals. AC has already lost \$2.8 billion in the first half, and this could reach \$4 billion by year-end. It is doing every possible thing to slow its cash burn and control its losses.

AC has slashed 50% of its workforce, retired a third of its aircraft, and increased its liquidity to \$9.1 billion. It even removed seats to make space for cargo as that is where revenue was coming from. If necessary, AC might delay or cancel its aircraft orders and withdraw its bid to acquire **Air Transat** for \$720 million.

However, AC is in a situation that is beyond its control. No amount of preparation can prevent the airline from losing money. What it needs the most is to put its planes in international skies and fill them with passengers so it doesn't lose money.

AC stock could surge to \$20 when international travel restrictions are eased. However, it would have to start making profits before the stock can see the world above \$30. And that will take at least five to seven years, provided international travel returns to pre-pandemic levels in three years.

## Investor corner

Instead of waiting for five years to see some material growth in AC, you can invest in

Enbridge makes money by transmitting oil and natural gas through its pipelines. It uses this cash to build more pipelines and returns the remaining cash as dividends. The pandemic has reduced oil demand, but it has secured \$13.2 billion liquidity to survive the downturn and continue its pipeline construction.

The recent market correction has reduced its stock price by 4% and increased its dividend yield to 7.9%. This is a good opportunity to lock in such a high yield.

### CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks
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### TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:AC (Air Canada)
3. TSX:ENB (Enbridge Inc.)

### PARTNER-FEEDS

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