



What Will It Take for Air Canada (TSX:AC) Stock to Reach \$30?

Description

So you think the COVID-19 vaccine news will send **Air Canada** ([TSX:AC](#)) stock up? If a vaccine does come, it will push the stock upwards. But it will take a lot more than a vaccine for AC stock to reach \$30. AC has been burning cash like all other airlines. The pandemic left no passenger airline behind. The last time AC witnessed an epidemic in 2002-2003, it was left bankrupt — and it took seven years for the airline to return to profit.

Back to the present, and AC has learned a lot from its experience and strengthened its balance sheet. Hence, when the COVID-19 pandemic struck, it acted quickly to reduce its losses significantly.

Air Canada is currently in damage control mode

At present, AC is in damage control mode. By the end of [the third quarter](#), AC contained its quarterly net loss at \$690 million and reduced its cash burn to \$9 million from \$17 million in the second quarter. The airline is wasting no time in taking drastic restructuring measures.

AC has cut 20,000 jobs, cancelled 30 domestic routes, canceled orders for 22 aircraft, deferred orders for other aircraft, and is retiring one-third of its fleet. If that is not enough, it is scheduling and canceling thousands of flights and not even refunding the ticket money to passengers.

This damage control is causing damage to its reputation among consumers. The U.S. Department of Transportation (DOT) received 3,759 complaints about AC refunds between January and July. And now, the airline is facing potential class-action lawsuits for these refunds. It's not like AC is not refunding tickets, but it is giving vouchers instead of money. The Canadian Transportation Agency approves of voucher refunds, but the U.S. DOT requires carriers to provide cash refunds.

These complaints will encourage travelers to opt for other airlines that offer cash refunds. People are already skeptical of flying. The competition will slow AC's recovery as the airline industry will suffer from tremendous oversupply for the next few years.

What will a COVID-19 vaccine do to Air Canada?

Amid all these flight cancellations and refund complaints, the hope of a COVID-19 vaccine coming soon is like a silver lining. The vaccine will have a dual impact on AC.

First, a vaccine will bring some clarity on when this pandemic will end. It will remove the 14-day quarantine and other travel restrictions and accelerate the return of international travelers. However, any potential side effects of the vaccine or a vaccine recall could bring the airline back to square one.

Second, AC is one of the partners in the Canadian government's vaccine distribution program. While the pharma companies are developing a vaccine, the government is signing deals with these companies to secure doses and distribute it smoothly nationwide. Therefore, if a vaccine comes, AC's fleet will be busy transporting the vaccine, which explains AC CEO Calin Rovinescu's sudden interest in the cargo business.

The vaccine will therefore act as the demand catalyst and drive AC stock to \$20 or maybe \$22. But it will take more for AC stock to break the \$20 barrier and soar to \$30 from where its multi-year rally will begin.

Behind the \$20 stock price

Investors are sticking to AC stock only because they believe that the airline will avert bankruptcy this time. What makes them believe that?

- First, Calin Rovinescu and his strong lobby to the government for easing travel restriction
- Second, AC's \$8.2 billion liquidity and contained loss despite a government bailout, and
- Finally, a potential government bailout for the airline industry.

AC and the government are in bailout talks where the government could [reportedly](#) give low-interest loans, rollback airport fees, and the existing Canada Emergency Wage Subsidy (CEWS). The bailout won't do anything for shareholders, but for travelers who need refunds and, future travelers who need affordable air travel.

The AC stock will not rise to \$30 until the airline is way past bankruptcy and reports its first profit. That is where the airline will switch from slowing cash burn to accelerating cash inflow. This could take at least five years. Until then, enjoy the \$14-\$20 price turbulence.

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