Air Canada (TSX:AC): 4 Cues That Will Shape the Stock’s Grand Recovery in 2021

Description

Air Canada (TSX:AC) stock has been among the top losers this year. Though it is still trading far lower than its pre-pandemic levels, the stock has soared more than 40% so far in November. Despite the pandemic’s second wave, I think the stock could continue to soar higher next year.

Air Canada reported its third-quarter results early this month. Its strong balance sheet pointed out that the airline is well placed for a prolonged pandemic. While peers south of the border burned $25 million of cash daily on average, Air Canada’s cash burn was at $9 million during the third quarter.

Its cost-cutting measures, including route suspensions and workforce trimming, have been proved quite effective to save liquidity. So, I don’t think survival is a concern for the flag carrier. Meanwhile, here are four catalysts that should fuel Air Canada stock’s grand recovery.

Government bailout

Canadian airlines have been asking for sector-specific federal aid almost throughout this pandemic. We can get to see a bailout package very soon.

It could be a low-interest-rate loan or an airport fees markdown. Air Canada, which is already financially stronger than global peers, will significantly benefit from federal aid.

Easing of travel restrictions

Almost all passenger airlines in Canada have expressed their disagreement with blanket travel restrictions in the country. The second wave might delay the government’s decision to ease travel curbs, which are already some of the strictest in the world.

However, as those will be eased, possibly early next year, Canadian airlines should see a comparatively higher demand.

Air Canada has seen an improvement in air travel demand during the third quarter itself. It has said that flyers are holding back because of Canada's stringent travel restrictions and a mandatory 14-day quarantine.

Air Canada will likely see its top line gradually improve once travel restrictions ease.

Higher Q4 revenues

Air Canada's third-quarter earnings highlighted that the worst could already be over for the country's biggest airline. Its revenues in Q3 improved 40% against Q2 2020. Losses narrowed as well when Air Canada was operating at just 20% capacity. For Q4, it intends to operate with 25% capacity.

Air Canada has been aggressively expanding its cargo fleet as the passenger traffic evaporated. A continued focus on cargo and a higher capacity should bring higher revenues in Q4, which should push the stock higher.

Vaccine launch

Encouraging results on the vaccine front pushed Air Canada stock almost 30% higher early this month. Even if the mass distribution is going to be challenging, this is certainly the world's eureka moment in terms of the pandemic.

Interestingly, airline companies like Air Canada might have started seeing the light at the end of the tunnel. If things go well, a large portion of the global population will receive a vaccine dose next year. This should alleviate uncertainties and foster worry-free travel once again.

Air Canada management has already mentioned that the company would take at least three years time to reach 2019 profitability levels. However, the stock will likely recover faster than that driven by the above-mentioned factors.

Although Air Canada gets back with reduced fleet and operating capacity post-pandemic, its leading market share and operational efficiency should fuel faster recovery.

For long-term investors, Air Canada stock does not seem like a risky bet as it was in Q2. With the pandemic's end in sight, the flag carrier could double your money in the next few years.

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vinitkularni20