



Air Canada (TSX:AC) Stock Jumped 48%: 7 Billion Reasons to Sell the Stock NOW

Description

Air Canada ([TSX:AC](#)) stock is growing by leaps and bounds, rising a whopping 48% so far this month. This jump only spells trouble, a warning of an iceberg ahead. The stock could hit the iceberg any moment and sink back to \$15-\$18 price. The airline, which will hardly touch \$6 billion in revenue and \$4 billion in net loss this year, has a market capitalization of \$7 billion. That's not fundamentally sustainable.

Air Canada stock's November 9 trampoline jump

AC stock has surged to its highest since the March sell-off and is trading at \$23.73. Investors have many reasons to rejoice. They are currently jumping on the trampoline of positive news. It all started on November 9 when AC reported better-than-expected earnings.

It reduced its daily cash burn to \$9 billion and contained its net loss at \$690 million in the third quarter. This is a remarkable feat given the \$17 billion daily cash burn and \$1.75 billion net loss in the previous quarter. Moreover, AC confirmed that it is in bailout talks with the government.

The second big trampoline jump came on the same day as **Pfizer** announced its [COVID-19 vaccine](#) was 90% effective. Since then, AC stock has been making small trampoline jumps on vaccine updates.

To give you a hint of the epic day of November 9, AC stock opened at \$19.44, which is 23% higher from its previous day close. Buyers flocked to buy AC stock at a 23% premium. The stock was overbought on that day. 27 million shares exchanged on that day, which is five times its average trading volume of 5.4 million.

This is the highest volume the stock saw in one day this year. Even during the March market crash and the rally in early June, AC stock did not cross the 20 million trading volume.

Air Canada stock's other trampoline jumps

The next trampoline jump came this week when Air Canada stated that it would resume flights from Vancouver to Hawaii from December 17. The passengers who are tested COVID-19 negative will be exempt from the 14-day travel quarantine. This relaxation in quarantine is what AC CEO Calin Rovinescu has been fighting for the past five months since the economy reopened in June.

After almost nine months of hibernation due to travel restrictions (since March 15), the AC plane will cross the U.S. borders for non-essential travel. Even if it is just one state, it is the beginning. And the timing is perfect as many leisure travelers fly to the hot state to avoid cold winters.

Caution: What goes up comes down

All these trampoline jumps could fall apart on one bad news. Bad news could be around the corner. The U.S. and Canada are imposing phased lockdowns in some cities once again as the COVID-19 cases surge. The Justin Trudeau government has not yet provided an update on whether the international travel restrictions will be lifted on November 30 or extended further.

Another month of travel restrictions will pull down AC stock by high-single digits. Then any delays in vaccine due to rejection from the U.S. Food and Drug Administration (FDA) could dampen investors' confidence. Even if the vaccine comes, it is not clear whether people will take these vaccines or not. A [survey](#) showed that many Londoners are not keen on taking the COVID-19 vaccine when it comes to the market.

When you buy into a stock like AC, which is purely moving on the news sentiment, you cannot discount the risk of negative news. The last time AC stock jumped to \$23 on June 8, it came down 24% in three days. The November trampoline jump of AC stock has created a good opportunity to sell.

How to make money from Air Canada's stock

If you buy AC stock at \$23, you will lock yourself in a losing bet with no returns for five years. This \$23 price is not sustainable unless backed by fundamentals. If you bought the stock at its \$17 average price, sell the stock now, and make a 40% profit. In dollar terms, a \$500 investment in AC will earn you a \$200 profit. But you have to sell now.

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