



Is Air Canada (TSX:AC) Stock Racing Toward \$50?

Description

TSX stocks are still flying high on the vaccine euphoria. The **TSX Composite Index** is inching closer to its all-time high, despite the pandemic's ravaging second wave. However, one name that has notably stood out recently is **Air Canada** ([TSX:AC](#)).

Suddenly among investors' favourites

Investors' optimism has led the stock to more than double in just over a month. I had highlighted Air Canada's [recovery prospects](#) early last month after its Q3 earnings. Notably, some of my readers who acted on it are sitting on a handsome 55% capital gain as of today.

So, what's next for Air Canada stock? Will the momentum continue? Or is it ripe for correction?

Favourable developments on the vaccine front should continue to drive TSX stocks higher. More vaccine candidates will enter the race, and a greater number of countries will approve them on a fast track basis, given the recent acceleration of coronavirus cases.

Even though mass distribution seems challenging, a gradual inoculation will help things get back on track. We could see mobility restrictions easing and businesses revamping early next year.

Some factors suggest a continued rally

Although air travel demand is not expected to come back soon according to some reports, there are some factors that hint the opposite. Canadians are sitting on a mammoth cash pile, which they have been saving for emergencies. This will likely be spent on discretionary items like travel or leisure once the economy re-opens next year.

Air Canada's [Q3 financial results](#) indicated that it is already turning around. Lower cash burn and improving revenues were some of the pivot-points for investors to cheer last month.

The next big catalyst in the near term for Canadian airlines will be the easing of travel restrictions. Airlines have repeatedly blamed these restrictions for deterring flyers and for lost revenues. Stocks like Air Canada will likely shoot up once these travel curbs are lifted, even partially.

While some suggest a pullback

However, it's not all good for Air Canada stock. The stock surged a little too high, too soon on the vaccine news. It now looks overvalued and might limit its upside movement. Air Canada stock is still trading nearly 45% lower against its pre-pandemic levels.

A potential bailout package for the struggling Canadian airline industry also had created optimism on the street last month. However, we have not seen one yet. A delayed or unshaped package might evaporate some part of the recent rally.

The Foolish takeaway

Despite the challenges, I am positive about Air Canada stock. Its debt has risen to record levels, and it might have to restart with reduced operating capacity. However, its strong balance sheet and dominating market share will likely fuel a stronger-than-expected recovery post-pandemic.

It's too soon to tell whether – and when — Air Canada stock will touch its pre-pandemic highs of \$50. However, staying invested with fundamentally strong companies for the long term has been highly rewarding. Air Canada stock just proved that last month.

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