



Air Canada (TSX:AC) Stock Could Soar to \$50 in as Little as 18 Months

Description

Air Canada ([TSX:AC](#)) stock has been in an unstoppable bull market since early November. Favourable U.S. election results and two safe, effective vaccines from **Pfizer** and **Moderna** acted as a shot in the arm to the stocks most heavily impacted by the COVID-19 crisis. With battered Canadian airline Air Canada now clear for continued take-off, should investors continue to pile into the name? Or could the name be in for a bumpier road to recovery versus the likes of its more domestically focused peers?

With shares currently hovering around \$27 and change, Air Canada stock is now up a staggering 82% from its October depths. While I'm no advocate, as chasing white-hot stocks that have nearly doubled in just over a month, the recent vaccine-driven rally still pales in comparison to the 77% implosion in the stock suffered back in February and March, a crash that I'd warned investors of back in January, a time when the threat of the virus was largely underestimated and just a month before markets fell into turmoil.

A dire warning

"While there's no telling how bad the coronavirus outbreak could get, Canadian investors would be wise to steer clear of the vulnerable airlines like Air Canada, which could shed a considerable amount of gains it had posted over the last few years." [I wrote in late January](#). "Given the airlines are a top disease vector, fears over the spreading coronavirus have the potential to pave the way for a massive quarterly miss... the stock remains overpriced given the new [coronavirus] risks that could fuel a 20-30% decline."

As it turned out, I was right to ring the alarm bell on the stock. But little did I know that the coronavirus outbreak would evolve into a horrific pandemic that would have plagued the world for the rest of the year, with some carryover expected in the next year. The stock crashed hard, shedding over 77% of its value, as quarters revealed a complete implosion in the top line.

Air Canada: A COVID-19 vaccine changes everything

In a pandemic, there's no question that a name like Air Canada is uneconomical. With substantial cash burn and uncertainties relating to future liquidity raises, many major airlines seemed like they would have been destined for insolvency. With a handful of vaccines that could allow us to conquer COVID-19 in 2021, though, Air Canada has become less of a reckless speculation with an options-like risk/reward and more of a sound, albeit volatile, deep-value investment that's likely to reward those willing to hold for at least another year.

The [advent of a safe and effective vaccine](#) changes everything.

And while it's been an epic recovery for the airlines in November, I think the best has yet to come, especially for Air Canada, which is still down just over 47% from its January 2020 peak. I think Air Canada stock could double again, given profits are likely to come roaring back in late 2021 or early 2022 following the end of this pandemic. However, contrarian investors should not expect smooth sailing back to those pre-pandemic heights. Expect turbulence — a lot of it. And be ready to fasten your seatbelt.

Air Canada looks attractive when you look beyond 2021

Air Canada looks like a stellar longer-term investment now that we've got renewed vaccine hopes. That said, there's still the potential for negative surprises in the new year. And unless you're committing to hold the name for years (and not months) at a time, you could still stand to lose some big money, as a retracement after the recent run could have the potential to be vicious and unforgiving to those seeking to make a quick buck.

When you weigh Air Canada's profitability prospects beyond 2021, it becomes more apparent that the stock is still absurdly undervalued in the grander scheme of things, even after November's incredible pop. Moreover, I certainly wouldn't be surprised to see Air Canada make a run past \$50 within the next 18 months, as I believe the surviving airline stocks will be in for some multiple expansion after having navigated through the worst crisis ever to hit the air travel industry.

Air Canada is still a buy in my books. Just get ready to double down on your positions on any dips.

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