



Why Air Canada (TSX:AC) Stock Has Soared Over 60%

Description

Air Canada ([TSX:AC](#)) stock has soared 62% since the end of October. This reflects rising optimism. Investors' hopes for the end of the COVID pandemic are rising. Vaccines are now being distributed, and the vaccination process has begun. [Now, investors can really envision the end of 2020's pain.](#)

So, what has this meant for Air Canada's stock price? Why has it risen so significantly? And what does 2021 have in store?

Without further ado, let's explore these questions.

Air Canada stock soars as the end to the COVID pandemic approaches

Air Canada has been one of the hardest-hit TSX stocks in 2020. This makes sense. It is in no way a reflection on the company. Air Canada was 100% [a victim to the COVID pandemic](#). So, now that we can see the light at the end of the tunnel, Air Canada stock is soaring.

The Pfizer vaccine has been approved. The vaccination process has begun. While the future is still uncertain, we're ever closer to a recovery. For Air Canada's part, the company has been doing its best. But its cash burn remains excruciatingly high. It's a matter of survival.

Glimmers of good news for Air Canada

The Air Transat acquisition has been approved by Air Transit shareholders. This acquisition is a central piece of Air Canada's strategy. It'll give Air Canada a greater piece of the leisure travel market. It will bring with it many revenue synergies.

The purchase price for Air Transat is reflective of disaster scenario. From a long-term perspective, this is great news. What this means is that Air Canada is now paying a fraction of Air Transat's real long-term value. The purchase price was reduced by 72% to reflect the current environment. If we are on

the way to a recovery, you can see what a great deal this is for Air Canada. It improves the long-term outlook for Air Canada's stock price, even if the recovery will take three to five years.

Also, Air Canada has ramped up its all-cargo flights. The airliner has operated 4,000 all-cargo flights. It will operate a dedicated, cargo aircraft business. This diversifies Air Canada's revenue sources as we move forward.

Air Canada stock: \$850 million equity raise

Earlier this week, Air Canada announced an \$850 million equity raise. The airliner's cash burn has accelerated again due to the second wave of the coronavirus. The airliner hasn't received any sector-specific aid from the government. And this has meant it has to fend for itself. Its hefty cash balance is dwindling. A \$500 million a month burn rate will catch up to it. And fast. Its \$8 billion cash balance is impressive. But at this cash burn rate, it'll be depleted in 16 months. Additional inflows are required.

For investors who have the stomach to bet on a recovery, use caution. Air Canada estimates that the airline business won't get back to pre-pandemic levels soon. We're looking at a three- to five-year time frame.

Motley Fool: The bottom line

Air Canada stock has been a roller-coaster ride, which has been mostly downhill in 2020 with recent strong upward movement. The environment is still disastrous for Air Canada. But we can now see the light at the end of the tunnel. If Air Canada can hold on a few more months. A comeback is in the making. Most of its cash reserves will be depleted, but it can start again. As the airline industry comes back, Air Canada will be in a stronger-than-ever position.

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