



Air Canada Stock Warning: Could the Share Price Fall to \$15 in 2021?

Description

Air Canada ([TSX:AC](#)) soared on positive vaccine news, but investors wonder if ongoing COVID risks could send Air Canada stock back to the November low.

Is Air Canada stock overbought?

Air Canada's stock price jumped from \$15 to \$27.50 in a spectacular four-week run from early November to the first part of December. Since then, investors booked profits and Air Canada stock is back down to \$22 per share. This appears [cheap](#) compared to the recent high, but it might be wise to wait.

Why?

Several top COVID vaccines show effectiveness above anticipated levels and rollouts are underway. This is great news for Air Canada and its investors. However, the [vaccine distribution](#) will take time and the pandemic's second wave continues to keep airplanes grounded.

New lockdowns in Air Canada's major markets, including Canada, the U.K., mainland Europe, and the United States will continue to hurt the company in the coming months.

Domestic travellers in Canada face two-week quarantines that make visiting other provinces a hassle. The restrictions appear set to remain in place for at least the first few months of 2021.

A new COVID strain in the U.K. just forced governments around the globe to ban flights to and from the country. Air Canada flies several times a day to the U.K., a major destination. The new restrictions place added stress on the revenue stream.

At the same time, the border remains closed to U.S. visitors and Canada continues to limit travel from all other countries.

Air Canada indicated in its Q3 2020 report that it anticipated a 75% year-over-year capacity reduction

for the fourth quarter. The surge in COVID cases in recent months likely means the drop will be higher. Investors should brace for Q4 results that could be worse than previously expected.

Is a government bailout good for Air Canada stock investors?

Cash burn remains an issue. Air Canada expects net cash burn to be more than \$1 billion for the fourth quarter. The company finished September with more than \$8 billion in available liquidity. This is adequate to get the company through 2021, as long as it isn't forced to give back all the money it is holding on flights cancelled due to COVID.

Air Canada continues to negotiate with the federal government on a potential bailout plan. Canada lags many other countries in providing aid to its airlines. In fact the IATA says governments around the world have provided more than US\$170 billion in aid and more is on the way.

Analysts expect refunds for cancelled flights to be part of a deal. This is a big cash hit to Air Canada, so the government would have to offer money to replace that amount. Canada might try to force Air Canada to follow through on taking delivery of CSeries planes it ordered from **Bombardier** before **Airbus** took full control of the CSeries program, now called A220. The construction of the planes supports thousands of Canadian jobs.

Putting non-profitable routes back in service might be another condition for government aid. Air Canada cancelled flights to many towns and cities in an effort to limit losses. The decision leaves many Canadians in smaller locations without air connections to a major hub.

While Air Canada investors have no idea how the bailout negotiations will end, these items have to be considered when evaluating the stock today.

Oil price impact on Air Canada stock

Oil prices soared in recent weeks on the hopes for strong demand as the global economy recovers. Volatility should be expected, but there is a chance the [oil rally](#) could continue through 2021 and beyond. Oil bulls see West Texas Intermediate (WTI) above US\$60 at some point next year. Super bulls expect a return to US\$100 in the next five years due to lack of investment in new supply.

Jet fuel represents 15-20% of an airline's expenses. High oil prices could be a major headwind to a recovery.

The bottom line

Air Canada faces near-term risks. While the company will eventually recover, Air Canada stock appears expensive right now given all the uncertainty. A drop back to \$15 wouldn't be a surprise, especially if the broader market corrects in the coming weeks.

The **TSX Index** offers other opportunities right now that could deliver better 2021 returns.

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