



Air Canada (TSX:AC) Stock: You Want To Hear the Good News or the Bad News?

Description

Air Canada ([TSX:AC](#)) stock has been in the headlines throughout the year. Sometimes it was good news and sometimes bad news. It was this news on which traders made money as the stock moved between the \$15-\$20 price range. In November, the COVID-19 vaccine upped the game, and AC stock reached \$27.5. But it dropped to \$22 in December, as the second wave of the [mutant coronavirus](#) once again started the lockdown trend. The airline is at crossroads. AC stock could rise to \$30 or fall to \$20 on good and bad news.

The good news for Air Canada

First the good news, the vaccine is out. The United States has [approved](#) the vaccines from **Moderna** and **Pfizer**, and both of them have arrived in Canada. The Justin Trudeau government hopes to make the vaccine available to anyone who wants it by September when the government's recovery benefits end. If the vaccine succeeds in reducing virus spread and easing travel restrictions, AC will benefit from the pent up demand for leisure travel.

The second good news is that the Canadian government is considering an airline-specific bailout, and AC will be the key beneficiary. If AC gets a favourable bailout, its interest rate burden from mounting debt will ease, and it can return to profits faster.

In the meantime, AC is closing more routes, raising equity capital, and accelerating its plans to start a dedicated air cargo business. AC's cargo business is at an early stage. If the management can earn money by putting the idle Boeing 737 Max to use as freighters, its revenue could surge.

The above news could send AC stock to \$30 in 2021.

The bad news for Air Canada

But every yang has a yin. All the above good news is built on hopes. They could backfire and instead

of pushing AC to \$30, pull it down to \$20.

The first good news was a vaccine. But it is difficult to say how effective it is? The United Kingdom is seeing some alternate effects of the Pfizer vaccine. The government has asked people with allergies to not take the vaccine. Moreover, the country saw a mutation of the virus, and it is not clear if the vaccine will work on the mutant virus or not. If people are not willing to take the vaccine, the rollout will become even more challenging.

All of these hurdles in the vaccine rollout have extended travel restrictions till January 21, 2021. These restrictions will be extended further until the government feels it is safe to open the borders.

The next good news of airline-specific bailout has become more of a battlefield. The government is putting conditions like canceled ticket refunds and restarting services on suspended routes without telling the bailout amount. AC CEO will accept these terms only when bailout money and terms are satisfactory.

The third good news of AC cargo business has started with a warning. After lying idle since March 2019, when the Boeing 737 Max aircraft took to the skies as a freighter, an engine failure forced the plane to land.

Some unexpected events could pull Air Canada stock to \$15

There is more bad news than good news for AC. Fuel accounts for 20% of an airline's operating expense. AC managed to control its losses in the third quarter to \$609 million due to low oil prices. But the oil price is surging which could increase AC's losses in the fourth quarter.

In such challenging times, AC's CEO Calin Rovinescu is retiring in February 2021. It is not clear how the management change will impact the airline. It could be good or bad. There will be a lot of turbulence in AC stock in February 2021. Higher fourth-quarter loss, continued travel restrictions, and management change could pull the stock down to \$15.

Playing on the seesaw stock price movement

Now that you know what is good and bad for AC, you can buy the stock near the \$20 price when the sentiment is bearish and sell the stock at the \$27 price when things are rosy.

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