



What Surprises Will 2021 Bring for Air Canada (TSX:AC) Investors?

Description

Air Canada ([TSX:AC](#)) is an airline that stood strong through the worst phase of the pandemic, even though it didn't get any airline-specific bailout. This year, world airlines experienced their worst crisis to date. An industry that thrives on travel demand and supply saw demand vanish into thin air. The coronavirus paralyzed the aviation industry. AC stock lost 70% of its value in March when the pandemic struck and surged 80% in November when the vaccine news came.

The virus threat has not yet gone. In fact, this virus has mutated, and countries like the United Kingdom and Nigeria are self-isolating themselves from the world. The year 2020 was the most horrifying for AC and world airlines. What surprises will 2021 bring for AC?

What can you expect from Air Canada in 2021?

Back in March, no airline knew what they were dealing with. They were just trying to understand the situation. After nine months in quarantine, they know what they have to do. AC is preparing for the worst. In mid-2020, I'd said that another wave of the pandemic might prove fatal for AC. And today, the airline is entering 2021 with the 10th month of blanket travel restrictions, operating at just 20% capacity.

The new year will start with travel restrictions. AC hopes these restrictions will ease towards the second half of 2021. It is counting on the COVID-19 vaccine. But the vaccine roll-out could be delayed if the virus becomes deadlier and immune to the vaccine. There is a possibility that the vaccine could create other health issues or people refuse to get vaccinated. These are the expected scenarios, and AC is preparing. It is raising [\\$850 million](#) in equity capital. More stock will dilute shareholders' interests. The results of this equity offering will come early next year.

AC's [acquisition](#) of international tour operator **Transat A.T.** might either get completed or rejected by regulators. The verdict will be out by February 2021. This acquisition will help AC pull leisure travel demand when travel restrictions ease.

The next year will also see AC's management change hands, as current chief financial officer Michael Rousseau will replace Calin Rovinescu as the new CEO in February 2021. The Canadian government

might also announce a bailout for the airline sector in 2021. The oil prices might rise to the pre-pandemic level of \$60 or even higher in 2021, as oil companies cut their production to balance supply and demand. And lastly, AC's cargo business might succeed or fail.

What unexpected events can happen to Air Canada in 2021?

If we account for the expected, AC stock could fall to \$20. But any unexpected events could send AC stock to \$15, \$0, or even \$30. For instance,

- No government bailout and another six to eight months of restrictions could shatter AC's balance sheet.
- The Canadian government might ease travel restrictions before June, and all the pent-up demand from leisure travel could spike up AC's revenue.
- AC could agree to give an equity stake to the government in return for bailout money. The airline could make more aggressive cuts to reduce cash burn.

In the worst-case scenario, AC stock can go to \$0 if the airline declares bankruptcy. In the best-case scenario, AC could see a recovery in cash flows driven by capacity cuts in 2020 and an increase in air travel demand in 2021.

Should you buy airline stocks?

Recovery from the pandemic crisis could take half a decade. But this crisis will make AC stronger. After the airline emerged from the SARS epidemic-induced bankruptcy in 2006 and the 2009 financial crisis, it spent its glory years strengthening its balance sheet. Between January 2013 and January 2020, the airline stock surged 2,700%. Those who bought the stock in the recovery phase saw their \$1,000 convert into \$28,000 in seven years.

But this doesn't mean you should buy AC stock for the long term, as the recovery has not yet begun. The fear of bankruptcy still looms for AC. Moreover, there is a fear of another market crash in 2021. Just wait and make short-term gains.

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