Air Canada (TSX:AC) Stock: 2021 Could Be Much Better

Description

Placing a bet on **Air Canada** (TSX:AC) could be a smart move now, as 2021 could be a much better year for airline companies. While the passenger volumes could remain low as compared to the pre-pandemic phase, the financial performance of airline companies is expected to improve significantly in the second half of 2021, giving a massive boost to their stock prices.

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The passenger numbers are expected to improve on a sequential basis. Moreover, the cargo business is expected to sustain momentum and remain strong.

Why I am confident about Air Canada stock

The pandemic has caused massive financial damage to the airline companies, as reflected in Air Canada's stock price. Air Canada stock lost over 53% in value in the last one year, reflecting deep losses. Air Canada reported an operating loss of $3.5 billion in the first nine months of 2020 compared to an operating income of $1.6 billion in the year-ago period.

Air Canada is projecting a net cash burn of $1.1 billion to $1.3 billion in Q4, which is higher than Q3. Meanwhile, it plans to reduce capacity by about 75% in Q4.

While the sector could continue to face challenges and is likely to bleed cash in the near future, I believe the worst is over. The massive vaccine distribution program is expected to drive passenger numbers and cargo volumes.

Air Canada's cargo revenues are growing at a steady pace and are likely to sustain momentum in 2021. The company has doubled its cargo space and is operating more cargo flights to meet the growing demand. Meanwhile, airline companies are likely to witness increased demand from flyers visiting relatives and friends.

Along with the increased demand, significant cost-reduction measures are likely to support Air Canada's cash flows and drive recovery in its stock.

Air Canada announced a massive cost-reduction program to remain afloat amid challenges. It eliminated more than 50% of its workforce and significantly reduced operating expenses. In Q3, Air

Canada's operating expenses fell 66%, or by about $3 billion, reflecting a decline in both fixed and variable costs.

Challenges

While the improved visibility on the vaccine front suggests lower losses, passenger volumes are expected to remain low compared to the pre-pandemic phase. The reluctance to travel with the pandemic in the background, international border closures, and quarantines could restrict the revival of Air Canada stock.

I believe the domestic passenger numbers are likely to improve at a much quicker rate as compared to international traffic. However, the full recovery in demand is expected to take longer and could continue to hurt Air Canada's growth prospects. Also, high debt levels remain a concern.

Bottom line

Despite the challenges, the vaccine rollout and an improving operating environment could give a significant push to Air Canada stock in 2021. While the company's lower operating scale is likely to impact its revenues and margins, expected improvement in demand and cost-cutting measures are likely to drive its financials and, in turn, the recovery in Air Canada stock.

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