3 Reasons Air Canada Stock Could Stall in 2021

Description

Air Canada (TSX:AC) has been a very profitable turnaround play since March lows. This stock has more than doubled, and many investors think more of the same could be on the horizon next year. That said, I think there are a number of factors that could stall this ascent to pre-pandemic levels.

Frequent flyers will need to choose to fly again

I think it's safe to say many of us will take that well-needed vacation abroad when this pandemic is over. There is indeed a tremendous amount of pent-up demand for non-essential travel right now.

That said, I think that a heightened level of caution will remain among many travelers, at least for the next few years. The thought of going somewhere and contracting the virus and giving it to one's elderly parents or grandparents is terrifying. Until every Canadian is vaccinated, we could see lower discretionary travel levels, as Canadians aim to be responsible. Furthermore, this pandemic may have forced Canadians to get a greater appreciation for Canada. Staycations and traveling around one's province or intra-provincially may be more attractive. Accordingly, we could see more road trips and less air travel persist well beyond the pandemic.

Furthermore, business-related travel has taken a big hit and will likely continue to be hit over the long term.

Secular weakness in business-related travel likely to persist

I tend to agree with a recent piece by fellow Fool contributor Jitendra Parashar, in which business travel is highlighted as a headwind for this stock long term. I think the coronavirus pandemic has shifted how corporations will choose to handle long-distance employees and large conferences.

Jitendra wrote: "Many experts predict at least a 36% permanent decline in business travel in the post-CVOID world. A massive drop in its demand could be devastating for the industry. And that's one key reason I don't expect Air Canada to be on a financial recovery path in the near future." I think this statement speaks for itself. Accordingly, I think investors ought to be wary of how much growth they're pricing into Air Canada stock coming out of this pandemic.

Non-essential travel promotions not looked upon fondly by many, including the government

Lastly, many investors may have already read about Air Canada's foray into social media promotions of travel during a pandemic. This has created a serious amount of vitriol among the general public, and the Canadian government, for obvious reasons.

These promotions go directly against public health advice and directives encouraging Canadians to avoid non-essential travel. The company is blatantly ignoring the direction the Canadian government has set, and is pursuing its own path. The Trudeau government recently updated its non-essential travel rules in response to such efforts to promote non-essential travel. The government put in place a requirement that Canadians show a negative COVID-19 test before returning to Canada. Additionally, a sick leave program put in place due to the pandemic will deny benefits to those who vacation abroad.

I think these brash moves could impact Air Canada's negotiations with the Canadian government over bailout money/stimulus, hurting the rebound case for this stock.

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