



Why Air Canada (TSX:AC) Stock Could Get a Lift Next Month

Description

Shares of **Air Canada** ([TSX:AC](#)) are up over 40% in the past three months, as excitement over COVID-19 vaccines has gotten investors bullish on the prospects of things getting back to normal sooner rather than later. And that means demand for air travel could recover as well.

Investors will recall that in 2019, Air Canada also entered a deal to acquire **Transat A.T.** (TSX:TRZ), which would further expand its reach while minimizing competition.

Naturally, the acquisition raised questions relating to whether it was good for consumers and the industry. With few airlines to choose from already, Canadians don't have as many options for air travel as their American counterparts do. But there's hope the deal will still get completed. In December, the Superior Court of Quebec gave the transaction the green light and if Air Canada gets approval from the Competition Bureau and all the necessary regulatory bodies, the deal could close before the end of February.

Why it would be great news for investors

For investors bullish on air travel, it would make Air Canada a much more dominant force, especially given the deal that it would be getting. In 2019, Air Canada was willing to pay \$18 per share for Transat. Now, however, the price it will pay is just \$5 per share, as conditions in the industry have changed drastically due to the COVID-19 pandemic. The deal would give Air Canada a greater share of the market and can help its sales reach record highs — assuming the demand for air travel recovers back to where it was before the pandemic.

The move doubles down the risk for investors, because by acquiring more assets, Air Canada will become more vulnerable to the effects of the pandemic. But with \$3.8 billion in cash on hand as of its most recent quarterly results, the airline still has plenty of cash on its books. And if the deal goes through, it will make Air Canada even more important to the aviation industry in Canada and less likely that the government wouldn't help the company should it need a bailout at some point.

It may not be great news for consumers but for Air Canada, it definitely puts the business in a better

position to benefit from a resurgence in air travel. While critics may point to the risk that the addition would add to Air Canada, at \$180 million, it's still a relatively cheap way to eliminate a competitor.

Should you buy Air Canada stock today?

Since mid-November, shares of Air Canada have been trading above the \$20 mark and have seen strong support at that level. Unless there's a [market crash](#) or problems with the rollout of vaccines, it's unlikely the stock will fall below that mark again. And even if it does, there's a good chance it will bounce back eventually. The closer the economy is to getting back to normal, the stronger Air Canada's share price will be.

If you're willing to hang on for a year or two, then buying Air Canada stock may not be a bad move to make today. The deal with Transat will make its business stronger over the long haul and can lead to some [strong returns](#) for investors who remain patient with the company.

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