



## Why Air Canada (TSX:AC) Stock Will Fall Below \$15 in 2021

### Description

**Air Canada** ([TSX:AC](#)) stock has been recovering in the last couple of months. But it's a recovery that many of us doubt. I mean, Air Canada is still walking a fine line. On the one hand, Air Canada is still bleeding massive amounts of money. The airline industry has been effectively shut down by COVID-19. On the other hand, the rollout of the coronavirus vaccine has brought hope for an end to the suffering and hope for the airline industry.

But the risk to Air Canada stock is still high. It's suited only to investors who can stomach high volatility. Without further ado, here's why Air Canada's stock price could fall below \$15 again in 2021.

## The airline industry suffers, as the second wave of coronavirus accelerates

With 2021 arriving, [the coronavirus is increasingly out of hand](#). It's spreading rapidly. Hospitals are overwhelmed. Where does that leave us? Well, it leaves us in another lockdown. In fact, lockdowns have taken effect around the world to combat the second wave.

With this, the airline industry is going to have to wait for that rebound. Air Canada is cancelling more flights. The fight to stay alive is real. Air Canada is losing massive amounts of money every day. The company has actually been quite successful at reducing its cash burn, but there's only so far it can go.

Today, Air Canada's stock price is approximately \$25. This is half of what it was trading at in early 2020. It's clear that Air Canada stock is among the hardest-hit TSX stocks in this pandemic. But it's around the same price it was trading at in early 2019. Does this seem right? Not to me. The airline industry will recover from coronavirus lows, but it will not go back to what it was for years. Even Air Canada admits this.

## Air Canada's Air Transat deal may go up in smoke

And now, the one thing that Air Canada had going for it, its **Air Transat** acquisition, is questionable. This added uncertainty comes as media baron Karl Peladeau is urging Ottawa to block the deal. He's doing this on the basis that his offer to buy Air Transat at a 20% higher price than Air Canada was ignored. Also, less competition for Air Canada is not a good thing.

But Air Canada's acquisition of Air Transat was the one thing that made me consider buying the stock. When a company has the financial capability to acquire in bad times, this says a lot about a company. When a company is [brave enough to actually buy in bad times](#), this says even more.

Because an acquisition that makes good strategic sense makes even better sense in bad times. Air Canada's acquisition of Air Transat is a good strategic move. It would give Air Canada a greater piece of the leisure travel market. It would bring with it many revenue synergies.

The purchase price for Air Transat is reflective of a disaster scenario. From a long-term perspective, this is great news. What this means is that Air Canada is now paying a fraction of Air Transat's real long-term value. The purchase price was reduced by 72% to reflect the current environment. If we are on the way to a recovery, you can see what a great deal this is for Air Canada, even if the recovery will take three to five years.

## Motley Fool: The bottom line

Air Canada stock may have big upside when populations are vaccinated. But the company has to survive this crisis first. For investors looking to buy Air Canada stock for an eventual recovery, wait. It will almost certainly get back down below \$15 again in 2021. That would be the time to consider buying.

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**Date**

2025/08/23

**Date Created**

2021/01/13

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