



Will Air Canada (TSX:AC) Stock Fall to \$15?

Description

Shares of Air Canada are down to start the year as its hot streak appears to be cooling off. The stock is still a long way from its 52-week high of \$48.06 and while it could get back there one day, it's more likely that it falls, at least in the short term.

More restrictions won't make things easy for the stock

Travel restrictions and increased lockdowns are making it more difficult for the airline industry to operate during what's already been a difficult time amid the COVID-19 pandemic. And earlier this month, a new requirement was introduced where travellers will have to show proof of a negative COVID-19 test before being able to board on a flight headed for Canada.

That could make it a challenging year ahead for the airline as it's unclear how long these restrictions and requirements will be in place. The government is hoping that by September, everyone will be vaccinated for COVID-19. And even if everyone doesn't sign up for a vaccine, there's a good chance the bulk of the population will, which should help the industry recover.

However, a full recovery back to pre-pandemic levels [may still be years away](#) from happening.

Why Air Canada stock might still be okay

The airline is going to continue to have to struggle its way through the pandemic. But the good news is that investors aren't expecting much from the company. In the past two quarters combined, the airline's revenue totaled just \$1.3 billion. That's less than one-third of the \$4.4 billion in sales it generated during the last quarter of 2019 and before the pandemic crippled Air Canada's business.

The company will release its fourth-quarter results in early February. However, unless things go exceptionally bad, I wouldn't expect shares of Air Canada to go overboard given the low expectations.

Another big concern is if the business will run into problems related to cash flow. That also appears

unlikely as on Sept. 30, 2020, the company reported cash and cash equivalents of \$3.8 billion. It also had short-term investments totaling another \$4 billion that it could dip into. Over the trailing 12 months, Air Canada has issued \$555 million in common stock and that only happened during one of the past four quarters. Dilution isn't a big concern for Air Canada shareholders unless things get a whole lot worse.

Last quarter, it burned through \$286 million in cash from its day-to-day operations, and that was an improvement from a cash burn of \$1.3 billion in the previous quarter. From a cash flow perspective, there's no cause for alarm just yet. The longer the pandemic drags on for, the more of a problem cash flow will be. But with vaccines now available and Air Canada burning through less cash than it was during the early stages of the pandemic, the company looks to be in good shape right now.

For the above reasons, I don't see Air Canada stock falling to \$15 for more than a brief period. There's simply too much hope and anticipation that the stock will recover and [double in value](#) for it reach those levels again and stay there. But if you do get a chance to grab the stock at the price, you may not want to pass up the opportunity to do so.

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Date

2025/08/14

Date Created

2021/01/27

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