



American Airlines Popped 50%: Is Air Canada (TSX:AC) Stock Next?

Description

The shares of **American Airlines** ([NASDAQ:AAL](#)) rose by about 50% earlier this morning in the pre-market trading session. The airline reported better-than-expected revenue for the third quarter in a row. While AAL has lost around US\$2.2 billion in the fourth quarter, it was slightly better than analysts' expectations. American Airlines burnt about US\$9.5 billion cash in the year 2020, as COVID-19-related restrictions wreaked havoc on the airline industry — badly hurting travel demand.

As of Wednesday, its stock was trading with 6% month-to-date gains. A massive intraday rally in American Airlines stock today comes as a big relief for the airline industry. It raises investors' hopes that its Canadian peer — **Air Canada** ([TSX:AC](#)) — could also see a similar stock price rally in the coming weeks or months.

However, everything might not be worth cheering for the airline industry — at least for now. Let's take a closer look.

Are Reddit users behind the stock rally?

In the last few days, a subreddit named “r/wallstreetbets” on Reddit has been one of Wall Street's hottest topics. It's a community of Reddit users that [defines](#) itself as “a community for making money and being amused while doing it.” The subreddit has now grown to over 4.6 million members. The wallstreetbets community has apparently triggered an insane recent rally in many stocks — including **GameStop** and **BlackBerry** — among others. Many of its members are seemingly using the [short-squeeze](#) technique for triggering a rally in selected stocks.

Yesterday, some users of this Reddit community mentioned AAL stock in their discussion. This may be one of the reasons why American Airlines stock skyrocketed on Thursday, apart from its marginally better-than-expected Q4 results.

Will Air Canada stock rally next?

After American Airlines shares rallied this morning, all other airline stocks in the United States and Canada also rose. Air Canada stock was trading with about a 5% gain for the day at the time of writing. But now comes the question of whether this rally could continue in the coming days, weeks, or months?

While Air Canada investors are currently desperate to hear good news, I don't find many reasons why its stock would continue rallying in the near term. The company is burning big cash each day.

And here are some other reasons...

Challenging path to a financial recovery

Due to various new coronavirus variants, Air Canada's operations might take even longer to go back to normal. Also, an expected significant drop in the business travel demand would make its path to financial recovery even more challenging.

In the next few quarters, airlines might have to run flights with lower capacity due to reduced air travel demand. It would hurt their profitability further. Also, if the business travel demand continues to remain low, even in the next couple of years — as feared by many industry experts — it could lead to many bankruptcies in the airline sector.

Bottom line

It's difficult to say whether or not the extraordinary gains in American Airlines stock today were driven by a Reddit community. However, I don't expect Air Canada stock to see a major sustainable rally in the near term. My expectations are based on its current fundamentals and its financial recovery prospects.

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