



## Why Air Canada Stock Could Soar Above \$30 This Year

### Description

Investors looking for rebound stocks ought to consider **Air Canada** ([TSX:AC](#)) at these levels. This is a stock that is still more than 60% below its pre-pandemic levels. Accordingly, there's reason to believe we could see a revaluation higher should investors become more bullish about the recovery coming out of this pandemic.

Here are two key catalysts I think could support such impressive capital appreciation this year.

### Fundamentals look strong, relatively speaking

What? How can Air Canada have strong fundamentals in the midst of a raging pandemic?

Well, I think the key here is to focus on Air Canada on a relative basis. This is an airline that has outperformed its peer group in the past and is one I've really liked on a relative basis for a long time. This pandemic hasn't shifted my view. From a fundamentals standpoint, there's a lot to like right now with how Air Canada's managing through this pandemic.

Accordingly, I really liked the commentary of fellow Fool David Jagielski in a [recent piece](#). Specifically, I liked his focus on how fundamentally sound Air Canada is right now really stood out to me. He wrote: "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." Indeed, that's a pretty significant buffer investors should keep in mind.

He continued: "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."

I couldn't agree more. The numbers suggest Air Canada's cash burn rate won't kill the company this year, or even next year, if pandemic-related restrictions are still in play. In my view, this provides a floor

beneath this stock.

## An end to the pandemic, a bailout, or both, could send this stock soaring

With what I believe to be a floor beneath Air Canada's stock price, one must ask, how high can this stock fly? Also, what catalysts would take this stock to the \$30 level this year?

I think Air Canada is probably in need of a bailout and is definitely hopeful the pandemic-related restrictions will be lifted or eased soon. These two factors are the keys for investors to keep an eye on with Air Canada stock right now.

Predictions around how long these pandemic restrictions will be in place have been very wrong in the past, so let's not try to speculate on this. The vaccine rollout has been slower than expected. However, there's enough evidence to suggest that we could see a significant portion of the population inoculated by the end of the year. Therefore, I think it's possible to make a projection that even if we're in the grips of a pandemic, we could see some restrictions lifted for those who have been vaccinated. This would be very bullish for this stock and is a real, plausible catalyst I see on the horizon.

A bailout right now seems to be tricky. Indeed, Air Canada has been in discussions for some time with the Canadian government, with no real progress updates provided. It seems this political football might take some time to be kicked around and sorted out. However, I do think a bailout is more likely than not, given the Canadian government's track record with supporting industries it views as essential. If one holds this to be true, a bailout this year would do wonders for this stock.

Time will tell how these unknown factors play out. That said, I'm more bullish on these factors right now than I've been in quite a while. I think there's room for optimism with this stock and a \$30 level is not unfeasible.

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