



Air Canada: AC Stock Will Likely Be Much Higher in 18 Months

Description

Air Canada ([TSX:AC](#)) has been [a tough hold](#) for investors over the last few months, as November's promising vaccine news has lost its effect at keeping AC stock propelled. In prior pieces, I've highlighted the likelihood that the bumpy road to post-pandemic normalcy would cause shares of Air Canada to pull back to the high teens.

Yes, November's initial vaccine breakthroughs were a bright light at the end of a dark tunnel. But there's still no telling just how long this tunnel is and how many more quarters' worth of [excruciating pain](#) the airlines will need to fly through.

COVID-19 variants a major risk to AC stock over the near term

Mutated variants of COVID-19 are of huge concern. Federal regulators are taking the matter very seriously, as demonstrated by the latest round of travel restrictions and strict hotel quarantine measures to deter incoming travellers from flying in through these unprecedented times.

Sadly, the province of Ontario reported its first case of the more contagious COVID-19 variant. However, there was no link to travel, which may signal that the variant is already spreading in the community. Whether or not new recent restrictions will prevent another deadly wave of COVID-19 cases remains to be seen. Regardless, the Canadian airlines are going to be in for another horrific quarter of steep losses at a time when most investors are expecting the start of a sustained recovery.

Air Canada stock under pressure again

Add recent logistical issues into the equation, and the thesis on Air Canada stock hasn't looked this bleak in quite a while. Even with more clarity on the vaccine timeline, there remains plenty of troubling uncertainties over the near term, making AC stock a very turbulent ride that's only suitable for investors with very strong stomachs.

There's no question that the sentiment has turned on Air Canada of late. But that's exactly why I'm

bullish on the stock once again.

Should shares continue to be pummeled and AC stock falls to where it was before **Pfizer's** vaccine breakthrough announcement in November, I'd look to load up on shares with the intention of holding on for the next 18 months.

Looking past the near-term headwinds to the recovery trajectory, Air Canada actually faces a pretty robust recovery trajectory.

Air Canada may have greater exposure to international travel, which is expected to recover at a slower rate than domestic travel. But I think shares of AC are already heavily discounted relative to some of its more domestically focused peers south of the border.

The bull case on Air Canada

The latest federal restrictions deal a massive blow to Air Canada over the near term. That said, it's important to note that Air Canada actually has more than enough liquidity to weather another few brutal quarters en route to normalcy. And let's not rule out the possibility of additional government relief aimed at the airlines.

Moreover, many investors may be underestimating the trajectory of a post-pandemic recovery in air travel.

Industry pundit and **Boeing** CEO David Calhoun previously noted that it could take as much as three years for the industry to bounce back from the crisis. If it turns out that COVID-19 is conquered this year, such recovery expectations may prove to be overly conservative due to potential pent-up demand for air travel that's likely been building up for well over a year now.

On the other side of this pandemic, I wouldn't at all be surprised if travel demand skyrockets and we're in for ridiculously high flight prices for many months following the pandemic's end. Such a phenomenon could be an unforeseen boon to Air Canada stock in early 2022.

Foolish takeaway on AC stock

After the recent dip in AC stock, I think the Canadian airline is one of the better economic reopening plays at \$20 and change, but only if you're willing to buy more on further weakness.

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