



Why Air Canada Stock Could Hit \$30 Soon

Description

Air Canada ([TSX:AC](#)) is a stock that ended last week on a high note, after [reporting earnings](#) on Friday before the bell. The company's stock ended the day more than 5% higher amid renewed optimism in the sector and bullish sentiment we could see a recovery in the airlines sector sooner rather than later.

Here are two of the key factors behind why some investors may be enticed to buy Air Canada stock below the \$30 level.

Renewed optimism around bailout

In the company's most recent earnings report, Air Canada's management team was bullish about the potential for a bailout. This optimism was reflected in comments by Air Canada's management team, who noted talks thus far with the Canadian government have been constructive.

Any bailout at this point in time would be very beneficial to Air Canada's stock price. The company burned through approximately \$13 million per day this past quarter. This cash burn rate comes after the company laid off roughly half of its workforce and cut capacity by more than 80%. A bailout looks to have been necessary for quite some time, and its potential arrival is being cheered by investors.

Air Transat acquisition adds to market dominance

This past week, Air Canada's proposed \$189 million takeover of **Air Transat** was approved by the Canadian government. This deal was seen as in the best public interest, providing stability to the sector.

Of course, Air Canada's competition disagrees. WestJet's management team has been loudly decrying the deal, saying this merger will result in increased fares for Canadian travelers and reduced competition in an already oligopolistic sector.

Canada's airline sector has always been essentially a monopoly or duopoly industry. Air Canada's market position as the largest Canadian airline was predetermined by the Canadian government decades ago. Thus, this move to allow the two airlines to merge was not unexpected. I do have to agree that this acquisition does increase Air Canada's pricing power over the long term. Air Canada's long-term margins and profitability may benefit from this merger, while Canadian travelers do not.

For Air Canada shareholders, this is a good thing.

Bottom line

Emerging from this pandemic, a tremendous amount of pent-up demand for discretionary travel could buoy the airline sector. Investors ought to rightly pick Air Canada as the Canadian option following the approval of its Air Transat acquisition. I think renewed optimism around a bailout further advances the thesis that this rebound stock could outperform in the near term.

Longer-term, more questions remain around the structural declines in corporate travel we may see materialize. However, I think investors are more likely to be positively skewed toward Air Canada stock for some time.

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