



Air Canada (TSX:AC) Stock: 2 Factors Could Trigger a Massive Rally in 2021

Description

The shares of **Air Canada** ([TSX:AC](#)) are continuing to rise in February after ending a previous couple of months in the negative territory. As of Wednesday's closing, its stock has risen by about 18% on a month-to-date basis. It started the year 2021 with a sell-off as it lost 12% in January. The company released its much worse than expected Q4 earnings last week. But still, the stock is continuing to recover gradually.

Let's take a closer look at some key highlights from its latest earnings before we discuss two factors that could trigger a sustainable rally in its stock in 2021.

Air Canada continues to burn cash

Air Canada has been burning cash for the last four consecutive quarters — it could continue to do so in the next few quarters as well. In the year 2020, the largest Canadian airline lost \$4.2 billion — much more than the expected \$3.9 billion, which translated into an adjusted loss of \$14.96 per share.

While Air Canada reported its worst loss of 2020 in the third quarter, the fourth quarter wasn't any better by any means. In Q4, the company lost \$1.21 billion — slightly less than its \$1.28 billion loss in Q3. Its fourth-quarter sales of \$827 million also fell short of analysts' consensus expectation of \$885 million.

Overall, it isn't easy to be optimistic by looking at its recent quarterly financials.

Then why its stock gradually recovering?

The company also provided an [update](#) on its **Transat A.T.** acquisition plans in its Q4 earnings report. If the deal goes through — after all the necessary regulatory approvals — Transat investors will get only 0.2862 Air Canada share for each Transat stock they hold. Air Canada is getting a big bargain on the money it was initially willing to purchase Transat.

This could be one of the reasons for its recent stock rally. But these gains might not sustain for long as Transat is also burning cash at the moment.

Two factors to watch for Air Canada stock

Nonetheless, these two key factors could help the airline regain investors' confidence and make its stock sustainably rally this year.

- First, if the Canadian government decides to provide a big financial package to the airline industry in time, it could trigger a big rally in Air Canada stock. I want to highlight again: if the expected government aid is not big enough or if it comes too late, it might not boost investors' confidence.
- If business travel demand picks up at a much higher pace than expected, it could help Air Canada stock fly again. Business air travel is one of the key profitable areas for the aviation industry.

I don't have many hopes from the second factor that I mentioned, as many [experts are already predicting](#) a big permanent cut in business travel demand in the post-COVID world. That's why I hope Air Canada manages to get timely financial help from the Trudeau administration and gets back on the path of recovery soon.

Foolish takeaway

There is nothing impossible in the market (and in life in general). So, I wouldn't deny the possibility of big sustainable gains in Air Canada stock in 2021. However, looking at the challenges ahead of the aviation industry at the moment, the chances of a significant sustainable recovery are very low and full of uncertainties.

That's why I find it much wiser to invest my hard-earned money in some other better growth stocks for now. This way, I could benefit from the ongoing market rally instead of waiting for an Air Canada stock recovery.

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