



Why Air Canada Stock Could Soar This Year

Description

Air Canada ([TSX:AC](#)) stock is up approximately 10% since last week. Shares have gotten a boost from the company's recent earnings report.

I'm going to dive into one factor I didn't dive into too deeply in my [recent article](#) covering the earnings report — namely, the company's **Air Transat** deal.

Consolidation bullish for Air Canada

Air Canada's market dominance has been cemented by its recent deal to buy Air Transat. The airline paid a meagre \$190 million to acquire this leisure travel airline.

Air Transat's market position is one which is focused on the leisure travel market. The airline focuses on key routes to vacation destinations and offers packages to its travelers that have been a hit. Air Canada has been able to acquire its way into a potentially lucrative long-term growth sector at very attractive prices. The impact the pandemic has had on all airlines has resulted in a massive devaluation of these companies.

In other words, Air Canada is picking up incredible growth potential at dirt-cheap prices. Air Canada essentially received a discount of more than 70% on this purchase compared to its initial offer. This is extremely bullish for investors.

Additionally, this consolidation will likely allow Air Canada to continue to raise fares. That's bad for the consumer but good for Air Canada's shareholders. While the government focused on the "stability" this would bring to the airline sector, Air Canada's main competitor WestJet denounced the deal, stating this would ultimately be bad for the Canadian consumer. Right now, these arguments appear to be moot.

Leisure travel segment likely to be a growth area in the years to come

Given the impact the pandemic has had on travel, I think this deal makes more sense than ever. Longer term, business travel is likely to see some structural damage.

However, vacation/leisure travel should boom. I think we'll see a spike the likes of which the airlines haven't seen before. In fact, I think a bigger issue for airlines in the coming quarters will be ramping up to capacity fast enough.

We're all sick and tired of being stuck in a home office or conducting meetings online. But doing so from paradise? It sounds much better to me.

Bottom line

Air Canada is a long-term investment at these levels. The pandemic appears to be getting under control. With more Canadians expected to be vaccinated in the coming months, there's reason to be optimistic travel restrictions could be lifted or at least loosened. Accordingly, I think Air Canada stock has the potential to soar this year, and in the coming years.

Similar to the company's Air Transat acquisition, investors may be well served by picking up Air Canada shares when they're this cheap.

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