



This 5-Year Prediction of Air Canada (TSX:AC) Might Surprise You

Description

Air Canada's ([TSX:AC](#)) stock is back to its rally despite reporting one of its worst annual earnings since 2003. Then what's driving this rally? It is the optimism of AC's advancing talks with the Canadian government around a government bailout. It is also because of advances in AC's acquisition of tour operator **Transat A.T.** The question is what the future has in store for Air Canada.

What lies ahead for Air Canada – the 2021-22 prediction?

Since last year, all major airline bosses have predicted that it will take three years (2020-2022) for air travel to return to the pre-pandemic level. The first year has passed, and the top US airlines expect to operate at 25-55% capacity compared to the first quarter of 2019. However, AC expects to operate at just 15% capacity in the first quarter, given Canada's stringent [air travel restrictions](#).

The extended lockdown is delaying the air travel recovery. However, I believe air travel will see some recovery in 2022, provided the government eases air travel restrictions. What makes me sure is the pent-up demand for air travel. Air Canada's third-quarter revenue surged 44% sequentially when the economy opened, and domestic travel began.

People love flying for leisure, for business, or to meet family and friends. AC managed to get bookings even when there were complaints that it is not giving a cash refund for canceled flights. Now that there is little to no flying in many areas as airlines have cut routes, demand is piling up. People have postponed their travel.

The biggest roadblock in the return of air travel is the travel restriction. Canada has these restrictions as it wants to control the pandemic. To make any prediction on the airline, predict the pandemic.

Air Canada's five-year prediction

In a prediction, you look at two aspects; the best and the worst-case scenario. Prime Minister Justin Trudeau has accelerated the vaccine rollout and aims to make it available to every person in Canada

by September. But this standalone effort is not enough to resume international travel. Even if Canada controls the virus spread, it will restrict flying to other countries where there is a mutant virus spread.

The best-case scenario

In the best-case scenario, the government will remove travel restrictions in a phased manner. It will first ease domestic travel restrictions, probably in the second half of the year.

The non-essential international travel restrictions may not ease before 2022. If this prediction comes true and 2022 is the year when AC can fly the international skies, the airline can avert bankruptcy with its \$8 billion liquidity and a possible government bailout.

AC could monetize on the pent-up passenger demand, keep strict control on cost, and boost its cargo business. The management's efforts can help it stop the cash burn and achieve breakeven by 2025.

The worst-case scenario

In the worst-case scenario, the vaccine rollout could get delayed because

- People are not willing to get vaccinated, or
- The virus mutates to an extent where the vaccine is ineffective.

This could push the travel restriction to another year, and there could be [another nationwide lockdown](#). This could delay domestic air travel recovery to 2023 and international air travel recovery to 2024. Another year of delay is something AC cannot handle despite having one of the strongest balance sheets. Even a bailout may not be effective, as the government will put conditions like:

- Refunding ticket money of canceled flights
- Resuming operations at suspended routes, and
- Reducing carbon emissions.

Even a bailout won't be able to help AC avert bankruptcy.

Investor takeaway

Investing in AC is like funding its losses. AC stock is rallying on hopes, and that can only take it \$28-\$30 price. When the bubble bursts and the reality strikes, the stock will be back to \$20-\$22. It could also fall to \$0 in the worst-case scenario. You can make some short-term speculative bets on AC, but it is not a long-term bet until the air travel future is visible.

There are better stocks than AC that can give you good returns for the risks you take.

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