Air Canada (TSX:AC) Stock: What Drove its 25% Gains in February?

Description

Air Canada (TSX:AC) stock is continuing to rally for the fourth week in a row. On Monday, its stock rose 4.4% after ending the previous week with solid 7.6% gains. With this, the airline stock has inched up by 25% in February so far. Let's take a closer look at what factors could be driving its recent gains. Then we'll discuss whether it's a good stock to buy right now.

Air Canada stock rally

On Monday, Air Canada's sharp gains came after **Deutsche Bank** upgraded its outlook for the airline sector. Deutsche Bank analyst Michael Linenberg believes "COVID cases, hospitalizations, and vaccination rates are all trending in the right direction." The upgrade triggered a rally in most airline sector stocks yesterday in the U.S. and Canada.

During its Q4 earnings event on February 12, Air Canada's president and CEO Calin Rovinescu expressed optimism about the possibility of a government bailout package for the aviation industry. He said on the earnings conference call that "While there is no assurance at this stage that we will arrive at a definitive agreement on sector support, I'm more optimistic on this front for the first time." Investors' high hopes of big government aid — especially after Rovinescu's comments — could be another reason driving the Air Canada stock rally in February.

Uncertainties about Air Canada-Transat Deal

Currently, the uncertainties over Air Canada's acquisition of **Transat A.T.** (TSX:TRZ) remain intact. According to an agreement between both companies, the acquisition was supposed to be completed by February 15. Last week, Air Canada told the parent company of Air Transat that it would not seek to extend the February 15th deadline for the acquisition deal. Despite getting the Canadian government's approval earlier this month, the European Union is yet to approve the deal. After the deadline, Air Canada and Transat now "retain the ability to terminate the agreement at any time."

The current Transat deal could be positive for Air Canada in the long term. It would help the Canadian flag carrier expand its market share in the leisure air travel segment. Interestingly, the largest Canadian airline is getting a big discount on what it was willing to pay to purchase Transat in 2019. Back then, Air Canada offered to pay $18 per share to purchase Transat. But in the current acquisition agreement, it has offered to pay only $5 per share for the Transat acquisition.

COVID-19-related challenges continue

The rising fears about the new coronavirus variants are continuing to hurt Air Canada's operations. The airline had to suspend its operations to 15 international destinations in Mexico and the Caribbean at the end of January. These operations are likely to remain suspended for three months at the Canadian government's request. In such a scenario, the airline had no other option except to process full refunds for these routes' bookings.

While Deutsche Bank recently upgraded its outlook on the airline industry, not everyone agrees with that. In the last week, analysts at many research firms like Cormark Securities, **Raymond James**, and **CIBC** have slashed their target price for Air Canada stock.

Foolish takeaway

After its February rally, Air Canada's shares are trading with 10.1% gains on a year-to-date basis. Most hopes about its short-term recovery are now highly dependent on a timely government bailout package. Air Canada stock might continue to face resistance on the upside if the expected sufficient government aid is further delayed. That's why while long-term investors may continue to hold its stock, it might not be the best time to buy it here. In my opinion, other cheap high-growth stocks could outperform Air Canada stock — especially when many small companies are fast recovering from COVID-19 woes.

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