Can Air Canada Stock Return to $50 a Share?

Description

Air Canada (TSX:AC) has been one of the most interesting stocks since the pandemic began. It continues to top the search charts for Google as one of the most popular stocks investors are interested in.

For the most part, almost every other stock has recovered from the pandemic, yet Air Canada has mostly been rangebound. So, investors are understandably interested in Air Canada and whether its stock can get back to $50 or whether they should consider other top Canadian stocks.

On top of when it will recover, investors want to know by how much. I think by now, most investors understand that it won't happen soon, but many don't care.

As long as Air Canada can get back to $50 a share, investors are willing to wait. So, let's look at all the headwinds the company faces on its way to recovery.

Can Air Canada stock be worth $50 a share again?

Right now, as many investors know, the biggest issue is the roughly 90% impact on sales the pandemic is causing.

There are other companies that are in a similar situation. However, many of these businesses can mitigate a lot more of their costs in the meantime.

In the airline business, though, it's a lot more difficult to save on costs. This means that Air Canada is losing around $15 million a day in cash or roughly $1.4 billion every quarter.

A large, high-quality company like Air Canada can handle these headwinds for a few months. Air Canada is the biggest airline in Canada, so it can easily raise funds through debt and dilution of shares. This is a positive, because it means Air Canada investors shouldn't have to worry about the stock going bankrupt.

However, every day the pandemic lasts, Air Canada's operations are impacted, which costs the company money. So, every day the pandemic goes on, investors of Air Canada are losing value on their investment.

This is because these costs will either need to be paid for with more debt or further dilution of shares. That's the biggest risk of buying Air Canada today with the expectations of a recovery.

Currently, the stock is worth roughly $28 a share, according to analysts. However, if the recovery takes longer than expected, the company could lose more value, making today's price of roughly $25 the fair value for the company a year from now. This is obviously highly unlikely, but it's still a risk investors take.

If you're wondering whether the stock could get back to $50 a share, it's not impossible, but it will take years to materialize. And given that's only a roughly 100% increase from here, it's too much of a long shot to be worth an investment.

A top stock to consider over Air Canada

Instead, there are plenty of other high-quality stocks that have the potential to double your money in much less time.

Especially today, with the recovery of energy stocks, several high-quality companies offer more upside potential with even less risk than you have to take with Air Canada.

One of those stocks today is **Freehold Royalties**. Freehold is one of the top energy stocks in Canada and has already doubled investors' money since last October.

The stock is a lot lower risk than Air Canada, and it pays a dividend. Combine that with its significant growth potential as the energy industry recovers, and it's clear it's a much better investment than Air Canada today.

Bottom line

Regardless of Air Canada's stock price, every day that the pandemic goes on, the situation only continues to get worse. It's impossible to tell exactly what kind of effect this will have on the stock once operations are back to normal again.

However, the increased interest costs it will have to pay will certainly have a significant impact. Plus, if it takes years to return to pre-pandemic levels of capacity, it could be a disaster for Air Canada stock anyway.

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Date
2025/07/20
Date Created
2021/02/23
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