



## Air Canada Bounces 32% in a Month: Should You Buy?

### Description

**Air Canada** ([TSX:AC](#)) stock bounced back 32% in one month and is up about 50% in six months on hopes of a revival in demand. Notably, Air Canada stock got crushed amid the pandemic-led travel restrictions. Deep capacity cuts, higher net cash burn rate, and growing debt led investors to sell Air Canada stock.

Now, with the ongoing vaccination across the globe and easing of lockdown measures, Air Canada stock has started to gain steam. However, will the momentum in Air Canada stock sustain, or will near-term challenges drag it down?

### Near-term challenges

Despite the vaccination drive, I believe widespread distribution would certainly take some time, which could continue to hurt Air Canada's prospects, as reflected through the lower advance bookings. Further, Air Canada's losses could continue to mount amid capacity cuts and a higher net cash burn rate.

I expected Air Canada to report sequential improvement in its financial performance in Q4. However, its Q4 operating loss widened further with no improvement in air travel demand. Moreover, strict travel restrictions amid the rapid spread of the new strain of the COVID-19 played spoilsport.

Air Canada, which derives a significant amount of revenues from the international markets, has been impacted severely as most countries continue to close their borders and have imposed tougher travel regulations. It posted an operating loss of nearly \$1 billion in Q4, higher than the operating loss of \$785 million in Q3. Further, it compared unfavourably with the prior-year period's operating income of \$145 million.

I believe Air Canada's available seat miles (which reflects its passenger capacity) to continue to remain low in the near term. Further, its revenue passenger miles (which reflect passenger traffic) could continue to slide at a high double-digit rate.

The company expects to lower its capacity by 85% in Q1. Moreover, it projects net cash burn to be between \$1.35 billion to \$1.53 billion, indicating continued challenges.

## Should you invest in Air Canada stock?

While challenges persist in the near term and traffic could continue to remain low, I remain optimistic about [Air Canada's prospects](#) in the long run. I believe the wide availability of the vaccine in the latter part of this year and the gradual reopening of the international borders could pave the way for a strong recovery in its stock.

Also, I remain upbeat about Air Canada's cargo business. Air Canada is focusing on expanding its cargo business through dedicated cargo freighter aircraft. Further, it entered joint venture arrangements and is taking revenue enhancement initiatives to bolster its cargo business.

With the gradual pickup in demand and its lower cost base, Air Canada could witness a sharp recovery in its bottom line, which could drive its stock higher.

The company's CEO, Calin Rovinescu, [remains](#) hopeful about the development on the vaccine front and expects to see improvement in the future, despite the uncertainty.

Air Canada stock is still down about 28% from its 52-week high of \$36.65 and presents a great entry point for long-term investors.

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