



March Outlook: Air Canada (TSX:AC) Stock Starts the Month with a Bang

Description

The ongoing rally in **Air Canada** ([TSX:AC](#)) stock doesn't seem to be ending. The stock started March on a solid note as it surged by nearly 5% on Monday after [ending February](#) with over 25% gains. By comparison, the **S&P/TSX Composite Index** rose by 4.2% last month. Before we discuss whether it's a good stock to buy at current levels, let's take a closer look at some key factors that drove Air Canada's solid gains yesterday.

Air Canada: latest news

Yesterday, Air Canada [announced](#) a key change in its agreement with **Chorus Aviation's** ([TSX:CHR](#)) subsidiary Jazz Aviation. The new agreement between the two airline companies will make Jazz Aviation the exclusive operator of Air Canada Express services. Jazz Aviation has been operating Air Canada's regional airline services for over a decade. These regional services were renamed as Air Canada Express in 2011. But until now, Sky Regional Airlines was also operating a part of Air Canada Express regional flight services with its Embraer EMB-175 jet fleet.

After the recent amendment in the agreement, the largest Canadian airline is seemingly trying to simplify its regional write operations. It expects the new agreement to minimize its operating costs and reduce its cash burn rate. Air Canada estimates the consolidation of its regional services to lower its cost by around \$400 million in the next 15-years.

The airline's senior vice president of operations, Richard Steer, termed this move a "necessary realignment" of the airline's regional services "in response to the ongoing devastating impact of COVID-19."

Cash burn is continuing in 2021

Air Canada has been burning big piles of cash each day for about a year now, which is why its stock is still trading with 23.2% losses in the last year despite its massive gains in recent months. Investors were hoping the year 2021 would be far better than 2020 as the pandemic gradually subsides.

However, the onset of new coronavirus variants in many countries is continuing to hurt the airline's operations badly this year.

In January, the Canadian government asked Air Canada to suspend its flights to 15 destinations for 90 days in the Caribbean and Mexico. This came as a big setback for the airline as it had to offer full refunds to affected customers on these routes.

Air Canada stock

Investors continue to wait for a big recovery in the aviation industry. In such a difficult phase, even a minor positive development is enough to regain their confidence. This justifies Air Canada stock's more than 5% gains on the first day of March. Today the stock was extending these gains as trading with 1% gains for the day at 1 PM ET.

Cost reduction efforts are absolutely necessary at this moment for Air Canada. However, its stock might not sustain these gains for a very long period — if the much-anticipated government aid for the airline industry is delayed further.

Foolish takeaway

I don't find many reasons to buy Air Canada stock at current levels until it gets sufficient and timely financial support from the government. Investors expecting a big recovery in Air Canada stock might use the same money to get far better returns from the market in March — especially when the broader market is rallying and trading near record highs.

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