



Air Canada (TSX:AC) Stock: Has its Post-Pandemic Rally Started?

Description

Air Canada ([TSX:AC](#)) stock is continuing to outperform the broader market. On Wednesday, the stock inched up by another 3.4%, even as the broader market traded on a negative note. The **S&P/TSX Composite Index** fell by 0.5% yesterday. In the last three days, Air Canada stock has surged by about 9% compared to only a 1.4% rise in the Canadian market benchmark. Let's take a quick look at some key factors driving these gains before discussing whether it's a good time to buy its stock.

Air Canada stock: Recent updates

On March 1, Air Canada amended its regional service-related agreement with Jazz Aviation — a **Chorus Aviation** subsidiary. The amended agreement allows Jazz Aviation to be the exclusive operator of Air Canada Express services. Notably, Sky Regional also has been operating Air Canada's regional service called Air Canada Express for many years — apart from Jazz.

In the last year, the global pandemic-related restrictions and shutdowns have badly hurt the airline industry. The Canadian flag airline has been burning cash for the last four quarters in a row. The chances of it coming back profit in 2021 don't look so bright either. The consolidation of its regional flight services would help Air Canada significantly reduce its operating cost. The airline expects its cost reduction to be around \$400 million over the next 15-year period. Investors seemingly welcomed this news, as its stock is continuing to surge in March.

Hopes of government a big bailout

It's the second consecutive month when Air Canada stock is showcasing strength. In February, the stock rose by 25.4% — outperforming the broader market by a wide margin. The TSX Index rose by 4.2% last month. Investors' high expectations — that a big government bailout package for the aviation industry is coming — helped the stock soar.

During its Q4 earnings event, Air Canada's then CEO Calin Rovinescu — who retired in February — showed optimism about the possibility of a government support package. On a conference call with

analysts, he [said](#), “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.”

Is it the post-pandemic rally?

While Air Canada stock has registered solid gains in the last month, it might not exactly be the post-pandemic rally that we all have been waiting for. The airline is continuing to face restrictions on its international services. In January, it had to suspend its international services and 15 routes to Mexico and the Caribbean for three months. The government asked the airline to do so with rising fears about the new coronavirus variants. Overall, the pandemic-related challenges are far from over for the aviation industry as of now. It might take at least a couple of years — if not more — for international air travel demand to come back to pre-pandemic levels, I believe.

That’s why the recent rally in Air Canada’s shares is primarily fueled by investors’ expectations of a government financial support package.

Foolish takeaway

As I’ve said in one of my [recent articles](#), only significant and timely government aid can help Air Canada stock sustain its recent gains. If the government’s expected financial support comes too little or too late, its shares could fall again. That’s why I find its stock too risky to buy at current levels. I would rather invest the same money in other high-growth stocks that could give me far better returns in the long term.

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