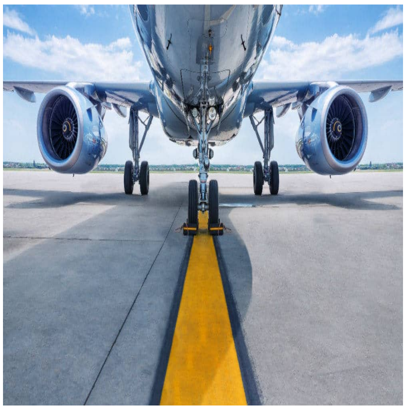

Air Canada (TSX:AC) Stock: What Justifies its 34% Gains in 5 Weeks?

Description

Air Canada (TSX:AC) shares have risen by 34% in the last five weeks. After ending February with more than 25% gains, its stock has already risen by 7.2% in March so far — bringing its year-to-date gains to 18%. Investors are expecting the government to announce a big financial package soon for the aviation industry. These expectations have acted as a catalyst for Air Canada shares lately. Let's take a closer look at some latest updates related to its bailout and find out how its stock might trade in the coming weeks.

Air Canada bailout could be coming soon

During its Q4 earnings conference call, Air Canada's former CEO Calin Rovinescu boosted investors' confidence by saying that he's "more optimistic" about a government financial support package for the aviation industry for the first time. This statement kept the airline's stock soaring in February, even as it reported far worse-than-expected Q4 results. The largest Canadian airline posted a $4.08 loss per share in the fourth quarter — 50% worse than analysts' consensus estimates. Its Q4 revenue of $827 million also fell short of analysts' expectation of $885 million.

While a government aid package might be on the way for the airline industry, it might come with certain preconditions. And some of these government demands are likely even to increase airline companies' near-term cost burden. Last week, in an interview with *Toronto Star*, the Canadian trade union Unifor's president Jerry Dias revealed that the aviation industry bailout package could be announced soon. He also suggested that the federal government wants the airlines to accept a few preconditions before receiving financial aid. These preconditions include that the Canadian airlines will have to provide refunds to customers whose flights were canceled or postponed due to the COVID-19 restrictions. Dias claimed that "Air Canada has absolutely agreed to do that" demand.

The pandemic's impact on Air Canada in 2021

The pandemic-related restrictions on most businesses — which started about a year ago — have reduced significantly this year. However, the onset of the new coronavirus variants is continuing to hurt airlines in 2021. For example, Air Canada suspended its flights to 15 destinations in Mexico and the Caribbean starting January 31 for three months. The airline suspended flights on these international routes at the government's request and offered full refunds to affected customers.

Its management believes that the decision might not significantly impact its cash burn rate, as the passenger traffic already remains low. Nonetheless, continued route suspension might further affect passengers' confidence amid already extremely low air travel demand, I believe.

Is Air Canada stock worth investing in now?

Despite its continued cash burn amid the pandemic-related restrictions, Air Canada stock continuously inching up for the last five weeks. The expectation of a bailout package partly drove its stock higher by 7.2% in the last week alone. So, long-term investors with a high-risk appetite might consider buying its stock on dips. However, recently increased volatility in the stock and the continued uncertainties about its near-term recovery make its stock a very risky bet at the moment. That's why investors who want to play safe could rather pick any good growth stock amid the ongoing market correction. Such growth stocks could yield far better returns in the long-term than Air Canada — if you buy them cheap right now.

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