



Air Canada (TSX:AC) Stock Could Rally When the Economy Re-Opens

Description

Air Canada ([TSX:AC](#)) stock has been on an impressive rally lately. Despite its most recent quarter being a huge miss, its stock rallied 28% in February. This was, of course, in anticipation of future results, *not* in reaction to past ones. Air Canada lost \$4.5 billion in 2020, and its fourth-quarter loss was worse than that in the third quarter. But now, with the vaccine rollout underway, we could be on the verge of a *permanent* economic re-opening. Nothing is ever 100% certain, but optimism that we're turning the corner on the pandemic is growing. If we do turn the corner, then Air Canada stock could rally hard.

An economic re-opening would benefit Air Canada

No industry benefits more from [the economic re-opening](#) than airlines. Retailers and energy stocks got hit hard in the early days of the pandemic but mostly found ways to bounce back. People started driving again, and retailers began shifting to online sales. This set the stage for a pronounced recovery in energy and retail stocks this year. Airlines, however, have been down for the count. Air Canada's most recent quarter saw one of its biggest losses yet, and the current quarter looks set to be another loser.

The economic re-opening could change all of that.

If 14-day self-isolation orders are lifted, then the biggest disincentive to travel will be gone. Travel levels may remain lower than normal due to unemployment, but they will pick up to one extent or the other. The question is whether they'll pick up to an extent that will allow AC to become profitable again. The answer to that isn't clear at this point. People may remain wary of travelling when the pandemic is over, choosing to "play it safe" instead of jumping right back to their old habits the minute they're permitted to. So, we'll have to wait and see whether Air Canada returns to profitability in 2021. But at minimum, it does look like the policy foundation for Air Canada to recover will soon be in place.

Stock already rallying

Despite the many uncertainties Air Canada still faces, investors appear convinced that it will recover soon. Bidding up the stock for several months, they see its prospects as solid. They may be right. Air Canada does have access to \$8 billion in unrestricted liquidity, which could allow it to remain operational, despite several more quarters of billion-dollar losses.

Nevertheless, it would be wise to remain vigilant. Air Canada is currently at half its pre-COVID price level, despite significant dilution and management's expectation that the company won't get back to 2019 revenue levels until 2023. Serious risks remain. This company [has recovered before](#) and will recover again. But it remains to be seen what kind of shape it will be in when it comes out on the other end of the pandemic.

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