



Air Canada (TSX:AC) Stock: Will it Go Past \$50 in 2021?

Description

Air Canada ([TSX:AC](#)) is becoming a [roller-coaster ride](#) for its investors through the pandemic. At writing, the stock is trading for \$26.90 per share on the **TSX**, and it is up by almost 50% from its valuation six months ago.

Air Canada's improvement on the stock market comes after it was decimated due to the pandemic-fueled travel restrictions. The airline had to make steep cuts in its capacity, lay off many of its employees, and the airline has been enduring a higher net cash burn rate. The growing debt for the airline led to many investors selling Air Canada stock.

The vaccination process going on worldwide and lockdown measures easing up are positive developments. Air Canada stock has started to rise again amid the hopeful developments. However, there still are short-term challenges that could continue to weigh down on the stock before it can recover.

Short-term challenges for the airline

While the vaccination distribution is active, widespread inoculation will still take some time. It means that it could still be a while until Air Canada's operational capacity resumes pre-pandemic levels. Air Canada's losses could continue to increase, as its capacity reduction and higher net cash burn rate will not let up until it can generate serious cash flows through its operations.

The company could report some improvement due to the hopes that the pandemic will subside soon. Air Canada derives a significant amount of its revenues from the international markets. It has been impacted heavily, because most countries are still closing their borders and implementing tough travel regulations.

Air Canada reported an operating loss of almost \$1 billion in Q4 2020 — a loss higher than the \$785 million in the previous quarter. The airline expects to lower its capacity by 85% in this quarter, and it projects its net cash burn to be between \$1.35 billion and \$1.53 billion. It is a sign that the airline expects to face more challenges in the short term.

Will it rise above?

With all the challenges persisting in the near term, air traffic could also continue to remain low. The long-term prospects for the airline are potentially great. Wider availability of the vaccine and gradual reopening of international borders could significantly boost its revenues. However, it remains to be seen how long it will take until Air Canada can regain its operational revenues from before the pandemic.

Air Canada's cargo business remains strong, and the airline is focusing on expanding this segment through dedicated cargo freighter aircraft. The company also entered joint-venture arrangements to raise additional capital. It is also taking initiatives to bolster its cargo business. However, it might not be likely to see Air Canada suddenly surge to 2021 at least until the latter half of the year.

Foolish takeaway

Air Canada continues to remain a slightly [speculative bet](#). It could be an amazing recovery play if you are optimistic about air travel reopening and the pandemic ending soon. Whether it crosses the \$50 mark on the stock market remains to be seen, but the airline could be in for some more challenges in the short term.

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