



Air Canada (TSX:AC) Stock: Will the Bulls or Bears Win?

Description

Air Canada ([TSX:AC](#)) continues to rally off the 2020 market crash. Investors who missed the surge in recent months wonder if Air Canada stock is still [undervalued](#) or soon headed for another major pullback.

Bull case for Air Canada stock

Air Canada moved quickly in the early part of the pandemic to shore up its liquidity position. The airline issued new stock and tapped an eager bond market to raise cash. Later in the year, it raised additional funds through sale and leaseback transactions and another share sale.

On the expense side, Air Canada reduced staff by 20,000 in June and has continued to adjust employee levels to meet changing market conditions. The airline also retired dozens of planes, cut routes, and restructured jet orders.

As a result, Air Canada set itself up with adequate liquidity to get through the year. In the [Q4 2020 report](#) Air Canada said it entered 2021 with unrestricted liquidity of \$8 billion.

Air Canada is negotiating with the Canadian government for sector-specific financial aid. The strong liquidity position gives Air Canada some leverage to fight for the best deal possible that won't hinder its recovery.

Looking ahead, COVID-19 vaccine distribution is ramping up ahead of earlier predictions. The United States says all adults should have access to a COVID-19 vaccine by the end of May. Canada will likely hit that goal in early or mid-summer. The U.K. is also making great progress. These are key markets for Air Canada and travel restrictions could start to lift in the next few months.

Pent-up demand for holiday travel could result in a major surge in bookings, and Air Canada might be able to get premium pricing for seats, as people unleash their savings.

Global herd immunity is possible in 2022, according to recent projections. That means Air Canada

could significantly ramp up capacity by the end of next year.

Investor appetite for recovery stocks is strong. The momentum could continue through the end of the year.

Bear case for the airline

Air Canada continues bleed cash. The company reported net cash burn of \$1.384 billion, or roughly \$15 million per day during Q4 2020.

Current restrictions on air travel are the tightest since the start of the pandemic. Air Canada expects Q1 2021 capacity to be 85% below the same period in 2019. As a result, net cash burn in the first quarter is forecast to be \$1.35 to \$1.53 billion.

The Q2 numbers likely won't improve much, so it will be the back half of the year or even 2022 before capacity can rebound enough to stem the bleeding.

A bailout from the government could take many forms, and the cash support is not the main issue for investors. Reports indicate the terms will require Air Canada to refund cancelled flights and promptly restart service to regional domestic destinations. These measures will hit the balance sheet and could significantly drive up expenses.

Demand for holiday travel should bounce back in a big way, but the high-margin business seats might not fill up as quickly. In fact, some analysts don't see business travel recovering to pre-pandemic levels for several years, if ever.

Finally, the rally in [oil prices](#) needs to be considered when evaluating Air Canada stock. Low jet fuel costs helped drive the strong profits the airlines enjoyed from 2015 to 2019. Brent oil recently topped US\$70 per barrel. Some analysts see a surge to US\$100 again in the next couple of years. If oil prices continue to soar and stay elevated, Air Canada could struggle to return to profitability.

What should you do with Air Canada stock today?

Air Canada trades near \$30 per share at the time of writing. The stock hit \$51 at the peak before the pandemic, but the world was a very different place at that time.

Given the financial situation and the expected long recovery for the airline industry the stock appears very expensive at the current price. Investors might be able to book some near-term gains on a momentum trade, but I would avoid making a buy-and-hold bet right now.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing

Date

2025/09/12

Date Created

2021/03/12

Author

aswalker

default watermark

default watermark