



Today's Top Buy: Air Canada

Description

Investors looking for the best reopening plays can't do much better than top growth stocks like **Air Canada** ([TSX:AC](#)). Here's why Air Canada stock remains one of my top picks.

Air Transat acquisition strengthens market position

Air Canada has undoubtedly reinforced its dominance in the market by [acquiring](#) Air Transat for \$190 million. Investors can now be a beneficiary of Air Canada's improved long-term growth trajectory in the vacation travel segment. Indeed, I think this move is likely to be a great one for Air Canada long term in relation to increased free cash flow and earnings.

Air Transat focuses on the leisure travel market, primarily providing vacation travel packages to its clients. With an economic reopening right around the corner, I believe this segment is primed for a sharp turnaround.

Accordingly, Air Canada's in a strong position right now to combat what may turn out to be structural damage in business and commuter travel. Indeed, I think this acquisition could turn out to be one of its smartest decisions over the long term. As the economy reopens, Air Canada's stock price should have a ton of momentum this year and next.

Talk of the town for a bailout

According to Unifor's Jerry Dias, Canada's aviation sector is currently in talks with the government for bailout loans worth \$9 billion. Previously, discussions focused on a loan worth \$7 billion to be repaid at an interest of 1% over a timeframe of 10 years. However, the final package is expected to be more substantial due to the current circumstances of the airline sector.

Dias disclosed that Air Canada has agreed to issue refunds to its passengers due to flight cancellations. This news appears to be a clear indication that the bailout deal is taking shape. However, Air Canada remained tight-lipped in a media statement. As per reports, the airline company

has told the government that restarting the sector is its topmost priority.

Additionally, Air Canada has been demanding testing at airports and has been collaborating with a non-profit organization to come up with different measures for quarantine.

This big bailout should remove bankruptcy risk from the equation in most investors' valuation models. Moreover, the government's low-interest loans will reduce Air Canada's debt burden substantially. As the company strengthens its bottom line again, I believe that this TSX stock is likely to continue rallying.

Bottom line on Air Canada stock

With the economy reopening, Air Canada stock has the potential to be the best rebound play on TSX right now. However, there are quite a few risks associated with this stock. Slow vaccine rollouts, multiple coronavirus waves, and extended lockdowns can certainly take a toll on the sector.

Nevertheless, there's still enough reason for long-term investors to buy this stock. As an optimist, I believe that the bailout will strengthen AC's balance sheet, and it will overcome the economic turmoil sooner than many think.

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