



Air Canada (TSX:AC) Stock Approaches \$30: Seeking Permission to Fly

Description

Air Canada ([TSX:AC](#)) stock is approaching the \$30 mark. Achieving this mark means a lot. Throughout the entirety of last year, I have been [writing](#) about the various scenarios in which the stock could either touch \$30 or fall to \$0. The COVID-19 pandemic came as a nightmare to airlines worldwide. Some airlines even went bankrupt. Airline bosses called it the biggest crisis of the industry to date.

Think of it like the scene from *Iron Man* where Tony Stark announced that Stark Industries won't sell arms and ammunition. Similarly, the passenger airlines won't fly passengers because the world governments imposed travel restrictions. Warren Buffett told airlines, "You've got too many planes." I agree with him. What will airlines do with all those planes parked in the desert? All of this reflected in AC's stock price. Let's see how.

Air Canada's first stage of the pandemic crisis: The Panic

It was a do-or-die situation a year back. There was panic. Airlines didn't know what they are facing, what to do, and how to save their souls? Airline bosses gave a three-year time frame for air travel to return to the pre-pandemic level. But even this prediction looked too optimistic.

The only aim of AC was not to let its cash dry when its money bag had many holes that were losing money at the rate of \$15-\$17 million per day. With \$9 billion in liquidity, the airline had one of the strongest balance sheets among North American airlines.

Over time, AC adapted to the situation, made some hard decisions, and thrived. Hence, it comes as no surprise that AC stock did not fall to \$0 but sustained the \$15-\$18 price range. The \$15 price was investors' way of patting AC's back for surviving.

The second stage of the pandemic crisis: The Vaccine

The next development for airlines was the COVID-19 vaccine in November. At that time, AC stock

crossed the \$20 mark and made a new pandemic high of \$27.5. That was a whopping 80% rally in November. This vaccine rally faded as the second wave of the pandemic created another series of lockdowns. But the vaccine upped the ante and made \$20-\$26 the new price range for AC stock to hover.

The longer the wait, the more difficult it is for AC to survive. The airline has already cut all possible costs and needs money to fly again when the pandemic is over. AC is raising debt at 9% interest, which is pinching equity shareholders.

AC didn't earn an 8% profit margin when it was at the peak of its business. A 9% interest burden could push it to bankruptcy in the next two to three years if the debt pile reaches unsurmountable levels. Time is of the essence for the airline.

Is Air Canada entering the next phase of the pandemic crisis: The Bailout?

When AC stock was drowning in the debt burden, optimism around a bailout revived investor confidence and sent the stock to the next phase of the pandemic crisis. If the Canadian government provides at least a billion-dollar low-interest long-term loan or grant, that will buy AC more time. The four-month-long bailout talk could come to fruition under the leadership of the [new CEO](#) Michael Rousseau.

The current prediction is that domestic travel restrictions could ease in the fourth quarter as Prime Minister Justin Trudeau expects to make the vaccine available to everyone in Canada by September. If there are more delays, the bailout money can help it thrive, which could up the ante for AC stock to \$28-\$32.

Nobody can predict the future, and AC and its investors have come to accept this truth. Hence, the airline is handling one problem at a time, resulting in a phased growth. The \$30 price marks the third phase of the pandemic crisis 'The Bailout'. If there is a bailout, \$30 will be the new normal. Otherwise, the stock will drop below \$25.

Air Canada seeks permission to fly

If the bailout phase is successful, the next phase will be "Permission to Fly." This will be the stage where the recovery begins. Until then, AC stock will continue to be bounded by the limitation of the land.

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