Air Canada (TSX:AC) Stock at 52-Week High Amid Bailout Speculations

Description

Air Canada (TSX:AC) stock hit its 52-week high of $31 per share on Monday. The stock has risen by 31% in the first quarter so far after ending the previous quarter with solid 45% gains. Investors' speculations about a possible large bailout package for the airline industry could be responsible for its recent massive rally. Let's analyze some key updates about Air Canada's expected bailout package and find out how it could affect its stock price in the coming weeks.

Air Canada stock and the bailout speculations

Looking at its sharp stock recovery in recent months, it's hard to believe that Air Canada is the same company that has been burning cash for over a year. Its stock tanked below $10 per share about a year ago on March 18, 2020. I find it really surprising that it has now risen to $31 per share — despite the company consistently losing money each day. That's why I call its recent stock rally largely irrational without much fundamental basis to it.

The airline industry is still struggling with COVID-19-related restrictions, even as most other sectors and industries are on a recovery path due to the gradually subsiding pandemic. To overcome its ongoing financial difficulties, Air Canada expects to receive a big financial support package from the government anytime soon. Investors are seemingly considering this expected support package to help the airline to come back on the path of big financial recovery. It explains Air Canada stock's massive gains in the last couple of quarters.

Cost burden might increase

Air Canada's former CEO Calin Rovinescu gave further fuel to speculations about a bailout package during its Q4 earnings conference call last month. On February 12, Rovinescu said, "while there is no assurance at this stage that we will arrive at a definitive agreement on sector support, I'm more optimistic on this front for the first time." Since then, AC stock has risen by 41%.

If the Canadian trade union Unifor president Jerry Dias's claims are true, Air Canada has agreed to the government's some preconditions for a bailout package. The airline company is willing to offer refunds to customers whose flights were canceled or postponed due to the pandemic. As I've argued in my recent article, such preconditions would increase already financially struggling Air Canada's cost burden further.

Will the bailout package end Air Canada's worries?

I believe neither a bailout nor a big loan could put an end to Air Canada's real worries at the moment. The company might not be on a path of sustainable financial recovery until the travel demand — especially business travel demand — goes up again. Such a recovery in the travel demand might at least take a couple of years — if not more.

In fact, lower travel restrictions in the coming months might also not be enough to turn Air Canada's operations profitable if the travel demand remains low. That's why I would pay more attention to the ongoing trends in travel demand rather than focusing on a bailout package.

Foolish takeaway

If the bailout package comes with many conditions that increase Air Canada's costs burden, I wouldn't consider it as a big positive factor for its stock. While it may provide temporary relief to the ailing company, its stock still remains a risky bet at current levels. I would prefer to invest my hard-earned money in some other cheap growth stocks instead. Such growth stocks could certainly yield much higher returns than Air Canada stock in the long term.

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