



Air Canada Stock: Bargain or Bust?

Description

Air Canada ([TSX:AC](#)) stock was down marginally in early afternoon trading on March 19. However, its shares have climbed 24% in 2021 so far. The stock is up 126% from the prior year. Canada's top airliner was on a tear before it had the rug pulled under it in the form of the COVID-19 pandemic. Today, I want to discuss whether shares of Air Canada are a bargain or a dangerous pick up. Let's jump in.

Why Air Canada stock is a bargain today

Shares of Air Canada have rebounded nicely after threatening single-digit price points during the March 2020 market pullback. However, the stock is still a long way from the heights it reached before the crisis. There are still challenges in this current environment, but Air Canada's prospects are looking up as we move into the spring.

The stock recently fell out of technically overbought territory – last posting an RSI of 56. In February, I'd discussed why investors should [snatch up](#) Air Canada in the late winter. There are ongoing negotiations between the company and the government over a bailout package for the industry. However, a deal would be contingent upon Air Canada offering refunds to its passengers for lost flights over the past year.

February reports seemed to indicate that a deal was close. However, there has been little news of progress in recent weeks. A bailout announcement would be huge for Air Canada stock and for the company's prospects in the months and years ahead. The recovery following this crisis will be long and hard. Fortunately, Air Canada has a solid balance sheet and a dominant position in the Canadian airline market.

How the airline industry could go bust

Airliners have seen record earnings and passenger traffic shift into a battle for survival after the pandemic hit. Air Canada unveiled its final batch of 2020 results on February 12. It reported

unrestricted liquidity of \$8 billion as at December 31, 2020. Shares of the top airliner dropped below the \$1 mark in the early 2010s. The company wrestled with a liquidity crisis that had some analysts worried for its future. Fortunately, Air Canada has learned the lessons of the past.

Some investors may still want to [avoid this sector](#). Canada's vaccine rollout has caught up to competitors, but now health care officials are warning about the spread of new variants. This may curb a return to normalcy in 2021. Worse, this pandemic may permanently transform the way countries regulate international travel. Air Canada and its peers originally projected that it would take three years to recover from this crisis. That could stretch further if there is no return to normal by the end of 2021.

Should you buy Air Canada stock today?

Unfortunately, it looks like the Canadian airline industry will be forced to wrestle with this crisis for most of 2021. Regardless, I'm a fan of Air Canada stock as we await a bailout package. Canada is on track with its vaccine deliveries and availability should no longer be an issue when we enter the summer.

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