Air Canada (TSX:AC) Stock: Irresistible in 2021

Description

2021 was speculated to be the year of recovery for some of the most downtrodden TSX stocks, including **Air Canada** (TSX:AC), and it hasn't disappointed, at least so far. Air Canada is up over 60% since the start of the year, and even though it's still far from its glory days valuation, the momentum might carry it quite near within the year.

But Air Canada's woes are far from over. The financial drain and losses the company suffered to stay operational, despite dried-up income streams, will keep haunting the company for years to come. And Air Canada might not get to fly as much as it did before the pandemic, at least not in 2021.

The fear of the pandemic resurging and new strains showing immunity to the vaccine are still there in the background, but for now, optimism in the recovery of the economy and the market is fueling Air Canada's momentum.

The uncertain consolidation plan

Air Canada was expected to acquire **Transat** (TSX:TRZ) early this year, but the window to make the deal has already passed, and the smaller airline is now looking for other prospects. The situation is made more complex by the European Commission that hasn't passed the merger yet, and Air Canada is not as enthusiastic about the union as it was.

Transat is now seeking at least half-a-billion dollars to sustain itself if Air Canada backs out of the deal. It's unlikely that such a hefty amount might come in the form of government aid, and the probability of another company acquiring Transat is relatively higher.

If Air Canada still goes through with the deal, it would have enhanced its dominance in the local and international air travel associated with Canada even more. But this business consolidation plan has gotten quite uncertain.

Diversified business opportunities

Air Canada had a lot of success with its cargo-front in 2020, which was the only profitable segment of the company last year. The airline is now expanding on its capabilities and is launching an e-commerce delivery service. It might not take off right away, especially with solid competitors both in the air and on the ground maturing, but the company *is* exploring new business opportunities.

The fears of bankruptcy have been all but quelled thanks to its recent growth bout. Still, the chances are that the company might go through significant restructuring once regular operational activities resume. The airline had to cut off a lot of local routes, but the actual loss came from the drop in international travel to Canada, because of the country's strong COVID restrictions. It might have to restore trust with local travelers reevaluate its local/international travel balance.

Foolish takeaway

The current growth spurt might continue on till the valuation reaches quite near its pre-pandemic levels. You might see the stock dip a bit when the earnings are announced, but other than that, the company might be on its way to recovery, especially if government aid is on its way as well. If you've held on to the stock for this long, you might need to wait a little more till the stock is in the profitable category for you again.

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