



Why Did Air Canada (TSX:AC) Stock Surge Almost 6% Today?

Description

Just last week, **Air Canada's** ([TSX:AC](#)) stock was falling despite the airline's attempts to stay in the news for good reasons. Then the stock suddenly jumped almost 6% even when there was no bailout news.

AC is a momentum stock with shorter [growth cycles](#) and longer dip cycles. Investors are very sensitive to news and tend to overreact even at the slightest hope of revival. AC knows this. Hence, it maintains its communication with the general public by staying active in the media.

Are Air Canada investors over-reacting to the news?

For the last few days, Air Canada has been reporting news that would not have any significant impact on its fundamentals:

- Restarting flights to sun destinations in May.
- Reducing carbon emission by 20% by 2030.

If you analyze the above two new stories, you will realize there is nothing new in it, and for the first news, the tables can turn anytime.

Should you be optimistic about Air Canada restarting routes in May?

Canadian newspapers like the [CBC News](#) reported that Air Canada plans to resume routes to vacation destinations like Jamaica, Mexico, and Barbados in early May. The airline also plans to resume routes to farther destinations Tokyo, Hong Kong, and Colombia in May. The stock soared almost 6% on this news. This reaction is overblown.

AC suspended the above routes from January 31 to April 30 at the Justin Trudeau government's request. You have seen AC canceling your flights and not even refunding the ticket money several

times. The airline alone did not decide to cancel these flights. Otherwise it would've been flying in full capacity to slow the \$15-\$17 million daily cash burn.

AC is cancelling flights because the government keeps extending the non-essential travel ban and advocating Canadians against international travel.

Investors are hopeful because of what AC said in its 2020 earnings call. Company management stated that it expects when the government lifts travel bans, it will replace some quarantine measures for foreign travellers with COVID tests. Looking at the current situation, I don't think this replacement will happen as early as May. Instead, there is a high probability that the government will extend travel bans beyond April.

Air Canada's carbon emission commitment

The second piece of news is about AC reducing carbon emission by 20% by 2030. The investors didn't react positively even though green investing is trending. Many stocks with exposure to renewable energy and electric vehicles (EVs) rallied significantly year to date. Moreover, AC hinted with this carbon emission press release that it is complying with all types of bailout terms that other country's governments required. However, this news did not get much response from investors, probably because it involved \$50 million in sustainable aviation fuels.

How AC stock reacts to news

After studying AC stock throughout the pandemic, I noted that the stock jumps 4-8% a day on news that shows optimism but has no major impact on the fundamentals — much like the above two news pieces that reassure investors that the recovery plan is still on track. But the stock jumps or falls more than 10% a day if the news alters the hopeful scenario. For instance, the stock surged 28% in a day on the vaccine news and fell 10% in a day on the second wave of the pandemic.

The next big news that will alter Air Canada's situation is either a bailout or ease in quarantine rules. Any of these news pieces will move the stock by the double digits.

Rather than playing this see-saw game with AC stock that will only raise your heartbeat, invest in stocks with more concrete growth.

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