



Air Canada Stock: Turbulence Could Be on the Horizon

Description

I'm bullish on **Air Canada** ([TSX:AC](#)) as an economic reopening play. Its management team is doing all it can right now to improve its outlook. Air Canada's growth in its air cargo business, cutting down local routes and temporary cutbacks to its workforce, as well as profitable consolidations are all great. However, risks do exist that could make for a turbulent ride for investors.

Here are two of the key ones I see on the horizon.

Jet fuel prices a headwind to the airline industry

Air Canada faces a fresh challenge in the form of rising fuel prices. According to data published by S&P Global Platts, U.S. jet prices hit their 13-month high at \$1.67 per gallon in February this year. Last year, oil prices were almost at an all-time low. Now that air travel is slowly finding its way back, fuel prices are on the rise again.

Fuel is one of the most significant expenditures that an airline firm has to make, closely followed by labour. Luckily, Federal aid helps covers labor costs, alleviating Air Canada's financial burden and aiding Air Canada investors of late.

Even though jet fuel consumption is still off by almost a third since last year, costlier fuel adds woe to the firm's cash burn. Indeed, this is a key metric investors in Air Canada have their eye on right now.

Several competing airlines have already included this added expenditure in their previous [earnings call](#) and forecasts for the next quarter.

Canada lagging on vaccine rollout is not helping the cause

Due to several factors, countries worldwide have unequal access to vaccines, and varying rates of immunization thus far. I understand that delivering vaccines to such a large population is a logistical challenge unlike any other. But Canada has been seriously lagging other countries in vaccine rollout.

Adding to these woes is the fact the Canadian government is discouraging non-essential international travel to the country. Starting January, only COVID-19 negative tested people are allowed into the country, who will have to then quarantine. Air Canada saw nearly 50,000 bookings cancelled as a result, and has further cut routes and personnel.

Obviously, this is extremely bearish for the idea that travel will return to normal for Air Canada as fast as other countries. With new mutant and vaccine resistant strains peeking from the horizon, there is a high possibility that Air Canada stock could be under some near-term pressure.

Bottom line

There's a lot to like about Air Canada right now.

Indeed, this is a stock that deserves consideration as a top economic reopening play. However, there are significant risks investors need to consider to this thesis. Timing is everything, so investors will be paying close attention to how quickly vaccines are rolled out, and how high jet fuel prices stay in the near-term.

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