



Air Canada (TSX:AC): Expect More Turbulence!

Description

Air Canada ([TSX:AC](#)) is one of the first [reopening plays](#) that come to mind for many Canadians. But with the Canadian vaccine rollout going slower than our peers to the south, is Air Canada stock really more [undervalued](#) than that of its American peers? Or is the airline going to continue lagging as we march closer to the post-pandemic world?

Air Canada: An options-like risk/reward

Like it or not, Air Canada stock still appears to be a play on the timely elimination of the coronavirus. And until there's more clarity with when the pandemic will end, Air Canada stock is likely to continue sporting an options-like upside.

Moreover, Air Canada is more of an international airline than most of its better-performing peers in the states. International travel is expected to lag domestic travel during the post-pandemic recovery. As such, investors shouldn't expect the firm to return to where it was in 2019 until 2024 or even 2025.

With AC stock trading at over 5 times book, I think the high rewards potential may not be worth the risks, given the profound uncertainties that remain and the risk of a reversal in the reopening trade that's really heated up since November 2020.

Curb your return expectations

Even if the pandemic ends sooner rather than later, COVID-19 is likely to go endemic. That means various international hotspots are likely to remain high-risk zones. And with that, one can expect the federal government to impose travel restrictions. Whether that means quarantine hotels, more testing, or the proof of vaccination remains to be seen. Regardless, such roadblocks are likely to dampen Air Canada's recovery trajectory for many years to come.

If you're looking for an abrupt double past pre-pandemic levels over the near-term, you're likely going to be disappointed, as it's probably going to be a very tough uphill road to recovery with ample

turbulence.

The bull case for Air Canada investors?

A bull case would see the return of summertime travel and a partial meeting of the incredible amount of pent-up demand built during 2020. Airline tickets will likely surge, and Air Canada could be in for the mother of all quarters as it moves from zero to one, so to speak.

In late summer, anyone who wants a vaccine should have one. And I find it likely that even with modest restrictions (social-distancing, masks, vaccine passports, and certain travel bans) that Air Canada could post a heck of a blowout quarter, fuelling Air Canada stock en route to a sustained rally toward the \$40 mark.

Whether such a strong quarter will be the first of many is anyone's guess. If we're due for a fall 2021 outbreak, expect such summertime gains to be surrendered in a hurry. The name will be turbulent, but I do think investors have a lot to gain from the name if all goes well with the economic recovery.

The bear case

A bear case would see variants get the upper hand on recent vaccine progress. A vicious variant-driven third wave of cases could send us into lockdown in the spring. Air Canada's cash bleed could exceed \$15 million per day, and all eyes will probably be on the Canadian government on how they plan to help Air Canada through another storm.

If variants of concern cause further waves into the summer, Air Canada stock will likely be in the no-fly zone for investors. And there's no telling how low the stock could go in such a disastrous scenario.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Coronavirus
2. Investing

Date

2025/07/28

Date Created

2021/03/27

Author

joefrenette

default watermark

default watermark