



Air Canada (TSX:AC) Stock: Time to Buy Finally Here?

Description

Canada's flag carrier remains off the runway because of heavy turbulence. It's not the weather condition that's preventing it from taking flight but the resurgence of COVID-19 cases and extended travel restrictions. Meanwhile, investors hope **Air Canada** ([TSX:AC](#)) can overcome the [obstacles](#) soon.

Thus far, in 2021, the airline stock's year-to-date gain is 19%. The highest it has gone up this year was \$29.80 on March 15, 2021. A year ago, the price stood at just \$15.16. Market analysts, however, forecast a potential climb of 29%, from \$27.10 to \$35, in the next 12 months. Is today the opportunity to finally buy?

Failed merger

Air Canada scratched the buyout deal with **Transat AT** for good. The takeover by the airline company was supposed to be the lifeline of the tour operator. The European Commission nixed the merger citing possible fare increases and limited choices by passengers.

Management did offer remedies to E.U. regulators to save the transaction. However, the negotiations bogged down because Air Canada found some conditions unacceptable. From E.U.'s vantage point, the airline industry should remain dynamic and competitive. Regulators will not relax conditions because of the pandemic.

Moving forward

Air Canada almost acquired Transat at a considerable bargain. The merger would have boosted the company in an economic reopening. Now, management needs to find another path to growth as the airline emerges from the pandemic. Ramping up its international capacity is perhaps the top priority if it were to see growth in the near and medium terms.

Some analysts believe the airline sector has strong support for eventual recovery. If that's the case, current investors will have to hold the stock, exercise patience, and wait. Others who are more

optimistic can take the risk. Those who are unsure can stay on the sidelines until more developments, like a federal bailout, comes.

No breakthrough

The federal government's first condition for a financial assistance package is paying refunds to passengers by airline companies due to cancelled flights. News reports say negotiations with the airline companies started in November 2020, although there's still no breakthrough yet in 2021.

Airline companies, including Air Canada, have received financial assistance only through the Canada Emergency Wage Subsidy (CEWS). Other conditions by the federal government are the reinstatement of regional routes in Canada and the protection of jobs across the airline sector.

According to Unifor National President Jerry Dias, Air Canada is amenable to paying refunds. Based on his estimates, the package, whether a bailout or loan, is around \$9 billion. Thousands of aviation workers were laid off or lost employee benefits.

What Air Canada is doing now is expanding its cargo services and ramping up cargo flights. The company jumped into the e-commerce market. It has a dedicated domestic service while boosting [international cargo capacity](#) at the same time.

Economic disadvantage

Air Canada's passenger business is the bread and butter, but strong headwinds continue to lessen the chances of a swift recovery. Miguel Ouellette, an economist and Director of Operations for the Montreal Economic Institute, points out that among G7 nations, Canada lags in helping the airline industry. The longer the aid takes, the more Air Canada will be at an economic disadvantage.

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Date

2025/08/24

Date Created

2021/04/08

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