



Air Canada (TSX:AC) Stock: Is There Really 103% Upside?

Description

If **Air Canada** ([TSX:AC](#)) stock returns to its former highs, there will be 103% in upside. Many analysts think that future is just around the corner, but it's not all that simple.

Here's what you need to know.

This changes everything

Like every other airline, Air Canada struggled in 2020, losing nearly \$1 billion every quarter. I wrote over the summer that a government bailout would be the only ending to this story.

"Unless conditions improve dramatically over the next few months, a government bailout is almost guaranteed for Air Canada," I'd [warned](#). "The business is responsible for nearly *half* of Canada's domestic air traffic. It employs tens of thousands of people. The government has a vested interest in making sure operations continue without disruption."

My predictions proved prescient. This week, the Canadian government swooped in.

"The federal government's nearly \$6 billion financial support package for Air Canada announced Monday includes billions of dollars to help the struggling airline rebuild from the effects of the COVID-19 pandemic," [reported](#) *Global News*. "The airline has been given seven years to repay any loans borrowed from the government refund facility, at an annual interest rate of 1.2%."

The news is a mixed bag. On one hand, we now know that the company won't go bankrupt. On the other hand, the company will be under immense pressure from regulators and government officials. Should you bet on a boom or bust?

Will Air Canada stock surge?

It's helpful to look at what happened to other businesses when they received government bailouts.

"During the financial crisis of 2008, dozens of companies received bailout funds in the U.S. and Canada," I recently explained. "Some were terrific investments. **Bank of America** stock, for example, has risen 500% since 2009. Many businesses, however, ultimately went to zero despite receiving government support."

What will the future hold for Air Canada? Whatever happens, this is truly a high-risk, high-reward opportunity.

With insolvency off the table, it's all about a return to profitability. Encouragingly, the company made more than \$2 billion in advance ticket sales last year. Many of those included cancelled flights, which must be refunded due to bailout conditions, but the high figure does point to pent-up demand for air travel.

Several industry groups report flights are now averaging around 70% capacity utilization. That's up from 60% the month before and just 10% at the depth of the crisis. One report concludes that "the industry is bouncing back sooner than expected."

With new funding, Air Canada could consolidate the market, controlling more market share as demand recovers. Its purchase of **Transat** for \$190 million was called off this month, meaning there are even more funds available for strategic acquisitions. Buying a competitor is a risky move right now, but it could set the company up for an incredible return.

Of course, this story isn't without risk. New variants are spreading across Canada and the world. Regional lockdowns are creeping into daily life again. There's appetite for air travel, but we still don't know how that will translate into real demand this year.

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