



Air Canada Stock: A Reopening Play or a Growth Trap?

Description

Investors in search of a [top reopening play](#) certainly have one in **Air Canada** ([TSX:AC](#)).

Indeed, airlines in general have taken a bad beating as a result of the pandemic. Passenger volumes remain way down from pre-pandemic levels. However, capital costs remain high, and all airlines are struggling with high fixed costs in this low-revenue environment.

That said, this amount of operating leverage can be a good thing for companies in an economic turnaround. Air Canada is the kind of stock you want to own if you think the economy's moving in the right track. Indeed, with travel restrictions due to be lifted (or at least eased) at some point, things will get better ... eventually.

But for now, questions remain. Among the most pertinent, investors want to know how quickly this recovery will unfold. Let's dive into this a bit more.

Economic reopening requires accelerated vaccine rollout

Although most sectors can power through partial restrictions imposed by the government, the airline space cannot. It's a sector that's been purpose-built to operate at full capacity. Indeed, anything less than near-100% capacity levels for most major flights, and the airline loses money.

Accordingly, the sooner Air Canada can pack its planes, the better.

However, travel restrictions remain onerous right now for passengers. Many choose not to fly due to the quarantine restrictions today. Others don't have a reason to fly. Business meetings that used to be done in person are now being done over Skype.

Thus the sooner Canada can vaccinate its population, the better.

Unfortunately, Canada is currently positioned somewhere around 40th spot in terms of vaccinations today. Yes, vaccinations are accelerating. However, concerns are that this rollout is going to take

longer than expected, which could hurt Air Canada's rebound thesis significantly.

The government finally bails out Air Canada

Okay, now for the good news.

Approximately one week ago, the Canadian government finally announced a bailout package for Air Canada. The sum total of the relief provided: \$5.9 billion.

That's a good chunk of change. And investors are right to be optimistic with regards to Air Canada's liquidity situation as a result of this deal. That said, the deal does have some stipulations investors don't seem to like. These include refunding tickets, safeguarding jobs, and recommencing unprofitable regional routes.

That said, money is money, and Air Canada shareholders ought to like the announcement. It takes uncertainty off the table in this regard.

One interesting aspect that surprised me about the announcement was the equity investment made by the Canadian government in Air Canada. The government agreed to purchase more than 21 million shares of Air Canada stock at \$23.18. This represented a 14% discount to its Apr. 12th stock price. Unsurprisingly, Air Canada stock has been moving toward this level in recent days, trading at \$24.50 at the time of writing.

Bottom line

I think there's a mixed bag of data for Air Canada shareholders right now.

Indeed, I think this stock likely has some near-term downside pressure owing to the equity deal done around the \$23 level and cost concerns coming out of the bailout package. Additional uncertainty with respect to the timing of the pandemic reopening may provide some further pause.

However, over the longer term, I think Air Canada stock is an intriguing reopening play. When we're through this pandemic, the demand for travel will skyrocket — that I'm sure of.

The question is when.

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