



Will \$32 Be the New Normal for Air Canada (TSX:AC) Stock?

Description

Every week is a new challenge for **Air Canada** ([TSX:AC](#)). One week, investors are all in awe with the stock, and it keeps rising for no particular reason. And the next week, investors turn bearish as things didn't happen the way they wanted. I don't blame investors for being impatient. Every day is a fire-fighting situation for the airline that is burning \$15-\$17 million cash daily. But can the bailout bring some steadiness in the roller coaster life of AC? Will there be a new normal in which even airlines can operate?

The hope of a new normal

Nothing is permanent. It is not that situation changes, but humans adapt to the changing situation. We learn and improve. During the 2009 Financial crisis, the government delayed the fiscal stimulus package, but it was quick to disburse stimulus in the pandemic crisis. At that time, people learned about good credit and bad credit and controlled their debt.

Back to the present, the world has learned about the pandemic, protocols are in place, and scientists keep improving the vaccine to help it fight the coronavirus mutation. The most pressing situation at hand is vaccinating the global population. But once the vaccination is over, things won't return to the pre-pandemic level that easily.

The coronavirus won't eradicate or stop mutating, but the vaccine will improve your immunity. Wearing masks, sanitizing hands, social distancing, and frequent vaccination might become the new normal. This new normal could probably last for quite a while, and Air Canada will have to adjust to it.

While domestic air travel might resume by the end of the year or next year, international travel will take time to recover. And AC has accepted this fact. Hence, it's keep an eye on air cargo and narrow-body fuel-efficient aircraft to make its operations efficient.

Will the bailout bring some stability to Air Canada stock?

Now the question is, will the bailout ease the momentum around Air Canada stock? It is difficult to say. I do believe there will be some stability compared to last year as the future becomes clearer. Investors'

anxiety that AC's wallet is lightening will ease for some time.

The [bailout](#) gives AC around \$4 billion in long-term, low-interest loans and \$500 million in equity capital to keep its operations running. This is the amount AC lost in 2020 (\$4.65 billion in net loss). This bailout is in addition to the \$8 billion liquidity the airline already has.

With the vaccine, there is hope that the world's major countries and cities would be vaccinated in the next two years. And with the new normal of masks, tests, and sanitization, Canada could gradually open borders to some if not all destinations by 2022. Domestic travel could reopen this year itself if there isn't a fourth wave. This would at least bring some cash flow for AC. The airline has already downsized as per the demand. So any increase in demand will bring optimism.

The rise and fall of Air Canada stock

How will AC stock react to these changes? Despite its worst earnings, AC stock surged 40% between February 10 and March 12 in the hopes of a bailout. This is because the bailout will bring some [stability](#) as the vaccine did. Although there was a second and now a third wave of the pandemic, the vaccine gives hope. And that is why AC stock did not fall below \$20, which was its highest before the vaccine news emerged.

The bailout is likely to have a similar impact. With financial stability intact, even equity dilution may not stop AC stock from surging to \$32, making this price its new normal. That is a 30% upside from its current price of \$24.7. The next big rally for AC could come when air travel restrictions begin to ease.

Final thoughts

AC stock is a good speculative bet, but don't put more than 2% of your portfolio in this stock. The right time to buy this stock is now and not when it rallies to \$28 or \$30 price. But there are some evergreen stocks that are in a long-term uptrend and a buy at any price point. They can strengthen your portfolio.

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