



Could Air Canada (TSX:AC) Stock Skyrocket in May 2021?

Description

Air Canada ([TSX:AC](#)) stock turned negative in April after trading on a positive note in a previous couple of months. The stock shed 5.3% last month after ending the first quarter with about 15% gains. The government last month [approved](#) a liquidity package for the airline. However, this development seemingly failed to boost investors' confidence, as I feared.

Let's take a deeper dive into some latest key updates related to Air Canada and discuss where its stock might head in May and beyond.

Air Canada bailout might not be all positive

Through its large employer emergency financing facility (LEEFF) program, the Trudeau administration has given Air Canada access to up to about \$5.9 billion in liquidity. The government has acquired some stake in the airline in exchange for providing this financial assistance.

While Air Canada has finally managed to convince the government to help it financially during the ongoing extremely difficult phase, it might not be fair to call this package all positive. Air Canada had to agree to the government's other conditions that are likely to make the airline's recovery path difficult.

Many conditions

For example, the largest Canadian airline had to agree to complete its existing order of 40 Boeing 737 Max aircraft and the acquisition of 33 Airbus A220 aircraft. It has also committed to resume nearly all of its regional flight operations that it suspended because of COVID-19's impact on travel demand. Resuming these regional operations might continue to hurt Air Canada's profits further as the demand on most such regional routes remains very low.

Apart from these conditions, Air Canada can't use the government-provided liquidity for certain expenditures, dividends, share buybacks, and senior executive compensation. The airline also needs to provide full refunds to all customers who booked the flights after February 2020 but didn't travel due

to the pandemic.

As I've been [saying](#), such conditions are likely to delay Air Canada's financial recovery further. That's why it would be a mistake to call the government's financial support all positive. And it justifies why Air Canada stocks ended April in the negative territory despite receiving much-needed government assistance.

Expectations from upcoming earnings

Air Canada will release its latest quarterly results this Friday. Analysts expect the company to report an adjusted net loss of \$2.81 per share in the first quarter, while its revenue is expected to showcase about an 82% year-over-year drop.

In full-year 2021, the airline's revenue is expected to rise by 18% YoY to \$6.9 billion — but remain much lower from its 2019 revenue level of \$19.1 billion.

Foolish bottom line

Air Canada stock is currently trading at \$24.77 per share with about 8.8% year-to-date gains after witnessing a 53% value erosion in 2020. Its worse than expected Q1 results or any negativity about its 2021 outlook might hurt investors' sentiments and drive its stock lower.

Also, various COVID strains in many parts of the world are still causing a delay in the expected travel demand recovery. That's why you may want to consider investing your hard-earned money in some good [growth stocks](#) from other sectors at the moment rather than hoping for a big recovery in Air Canada stock.

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