Air Canada (TSX:AC) Stock: Buy the Dip?

Description

Air Canada (TSX:AC) stock has been trending down over the past month. On April 7, it was worth $27.65. On May 6, it closed at $23.95. That's a 13.38% decline. Despite that, Air Canada is nowhere near the lows it reached in 2020. In March of that year, it went as low as $12.4. So, the stock has still been a huge gainer for those who bought at last year's lows.

Could these more recent lows represent another buying opportunity? There has recently been some positive news from Air Canada, such as a $5.9 billion bailout and the resolution of the refund issue after more than a year. It certainly *looks* like the company is turning a corner. Yet its stock is near its lowest point of the year. This situation is worth exploring. In this article, I'll examine some factors to help you decide whether Air Canada is worth buying on the dip in May.

Air travel: How it's looking today

Broadly, the air travel industry is in a recovery phase in the second half of 2021. Earlier this month, 1.67 million Americans checked into airports in a single day — the highest level since March 12, 2020, right before COVID hit. The international situation was not as rosy. Much of the E.U. remain locked down in May, and several countries have banned flights from India. But North American air travel is definitely beginning to recover.

Note, though, that "North American" air travel is dominated by U.S. carriers. The numbers out of the U.S. have been encouraging, but there have been no reports of a similar uptick in Canada. That makes sense, as Canada is currently experiencing one of its worst COVID-19 outbreaks ever, with large swaths of Ontario, Alberta, and even Nova Scotia locked down. So, it's not clear that Air Canada will benefit from the broad recovery in North American air travel. AC does operate some U.S. routes but mainly ones going to and from various Canadian destinations. We'll have to wait until the next quarterly report to see how all this plays out.

$5.9 billion worth of low-interest financing

By far the biggest thing Air Canada has going for it right now is the $5.9 billion in low-interest financing it secured. As part of a deal with the federal government, Air Canada got

- Loans financed at various rates ranging from 1.5% to 1.7%; and
- An equity buyout from the federal government (which accounted for $500 million of the $5.9 billion total).

Total proceeds were more than enough to keep Air Canada going for a year. The company already had $8 billion in liquidity, even before the $5.9 billion financing package. So, while AC may have more losing quarters ahead of it, it is not going to collapse.

Foolish takeaway

The past year has been a wild ride for Air Canada shareholders. In March of 2020, the stock crashed from $55 all the way down to $12.4. Some months later, it began rallying like never before, eventually coming close to $30. Today, it's once again bearish. It's hard to say what the future holds in store for AC. But now may be a good time to consider buying the dip — especially if the dip goes lower than it already has.

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