



Why Analysts Appear to Be Bearish on Air Canada Stock Right Now

Description

Investors are increasingly looking to take advantage of pandemic reopening plays. In this market, there are many who believe **Air Canada** ([TSX:AC](#)) is certainly a [top pick](#) worth considering.

However, some analysts appear to be bearish on Air Canada at its current level. Indeed, Air Canada stock has made a sharp recovery following the fallout from the pandemic last year. Shares of Air Canada have more than doubled from their pandemic lows. Accordingly, some believe that little in the way of upside may exist at current levels.

Here's more on the bearish take some pundits are taking with this stock today.

Most of the upside currently factored into Air Canada Stock

Matthew Lee, an analyst at Canaccord Genuity, believes that the current stock price of Air Canada already reflects the optimism among investors right now. Indeed, he's one of a growing number of investors and analysts suggesting Air Canada Stock may have gotten ahead of its fundamentals at these levels.

Mr. Lee believes Air Canada was well-positioned prior to the pandemic. Favorable industry dynamics, strong financials, and growth potential were key to the ownership thesis of Air Canada Stock. However, like all airlines, this thesis has been blown up by the pandemic.

There's certainly a reopening thesis that can be made with Air Canada today. However, quantifying how much of the long-term growth coming out of this pandemic is already priced into Air Canada Stock is a difficult task.

There's a growing proportion of investors who believe Air Canada's valuation has caught up with its historical average. There's still likely going to be some near-term pain in terms of cash burn as pandemic-related travel restrictions stay in place. The timing of an economic reopening in Canada is really at play here. Thus, there's a considerable amount of risk with buying Air Canada at these levels today.

Accordingly, Mr. Lee has assigned a hold rating on Air Canada right now. I think this rating is indicative of the broader sentiment for airlines today.

Headwinds still exist, so trade carefully

In addition to the uncertain timing of the pandemic reopening domestically, other headwinds are strong today.

Rising jet fuel prices are bullish for companies in the energy space, but not for airlines. Air Canada's margins may be squeezed by commodity pressures outside of its control, if and when the economy reopens in the near-term. Accordingly, the ability of Air Canada to continue to hedge out oil prices and time these hedges with the reopening will be key for investors to keep an eye on.

Additionally, the vaccination rollout in Canada remains slow relative to the rest of the world. Canada's vaccination rollout will be a key determinant of how quickly travel restrictions are lifted. Vaccinating a country as vast as Canada will certainly be difficult. However, investors will be watching this key factor closely in the coming quarters as well.

Accordingly, I think there's likely going to be some near-term pressure with Air Canada Stock. Investors buying into the Air Canada reopening thesis need to be aware of the risks associated with this stock today.

Yes, this *is* a sexy reopening play. However, much of this optimism may already be priced in.

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