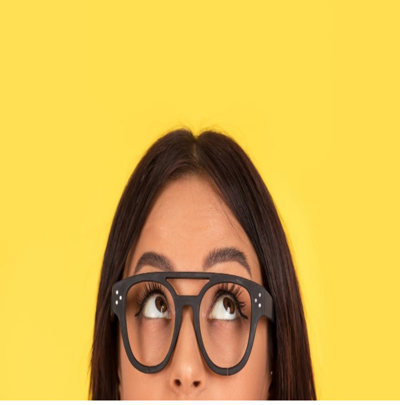

2 Key Headwinds for Air Canada Stock Investors Should Be Concerned About

Description

As far as pandemic reopening plays go, **Air Canada** (TSX:AC) is about as good as it gets.

This Canadian airline has made some pretty bold steps forward in an otherwise gloomy economic shutdown. Air Canada's management team has cut costs, shifted its capacity and business model substantially (think air cargo) and gotten a bailout deal done. These are good steps forward.

However, that's not to say Air Canada is out of the clear just yet. There's work to be done, and investors should be aware of the risks with this stock.

Here are two such risks I think are pertinent to consider today.

Vaccine rollout continues to be a headwind

The pandemic reopening thesis is based upon the idea that travel will reopen sometime soon. And that assumption is largely based on how vaccine rollouts accelerate (or not).

Unfortunately, Canada's been lagging the world when it comes to the country's vaccine rollout. Various procurement issues have stymied plans for a loosening of travel restrictions thus far. There's still hope travel could resume before the end of the year. However, at this vaccination pace, the likelihood of such a scenario seems to be low right now.

Canada's lack of ability to produce vaccines at scale appears to be at issue here. Canadians are banking on a speedy vaccination rollout in the U.S. and international generosity with vaccine sharing. In recent weeks, deliveries have picked up, and there is some hope we could see a majority of Canadians be vaccinated soon.

If the vaccination rollout picks up steam, Air Canada could regain its momentum as a rebound play. However, there's reason to be cautious with taking this view right now.

Jet fuel prices are rising

A number of factors are leading to rising fuel costs of late. Gasoline prices have been making headlines of late, as they rise to levels not seen since 2014 in the U.S. A confluence of key drivers are playing into this rise.

However, jet fuel prices are also rising substantially. According to reports published by S&P Global Platts, jet fuel prices in the U.S. breached their 13-month high this year in February. Indeed, jet fuel prices reached a recent high of $1.67, which represents a year-over-year increase of 12.76%. Considering the low price base driven by this pandemic, it is quite a substantial increase.

For energy stocks, an increase in oil prices is excellent. However, for companies like Air Canada that use a lot of fuel, rising oil prices do not support the recovery thesis. That said, there's still room for optimism right now as Canada's government hasn't lifted the pandemic-related travel restrictions yet. Indeed, Air Canada still has time to hedge out a significant part of that exposure.

Nevertheless, with jet fuel prices surging, it appears that there are concerns regarding the company's profitability as we inch closer towards the end of this pandemic. Thus, I believe that investors should consider this headwind today.

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Date
2025/08/13
Date Created
2021/05/11
Author
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