Air Canada (TSX:AC) Stock: Double or Trouble?

Description

Few other stocks have gotten as much limelight in the past 12 months as **Air Canada** (TSX:AC) has, and it's easy to why. Skeptics of the stock waited for it to take the turn for the worst and declare bankruptcy. The proponents of the stock hung their hopes on its quick recovery and subsequent growth.

But the stock has proven worthy of the trust its investors have shown. Despite going through one of the worst financial crises, the company didn't declare bankruptcy and survived without the government's aid. The aid has finally come, and the airline can now start its journey towards a genuine financial recovery.

Right now, the stock is stuck in the middle. It's not going up at a speed that its recovery enthusiasts were hoping for, but it's also not showing any signs of dropping below $20. Many people are wondering, if they buy Air Canada now, what they can expect in a year or so: their capital growing double or getting in trouble?

Probability of the stock doubling your money

At its peak before the 2020 crash, Air Canada was hovering around $50 per share, which many people consider the recovery "benchmark." But it's important to understand that the stock is now significantly more diluted than it was in 2019.

Still, the *mood* around the airline and the aviation business, in general, is relatively positive. Despite the fact that the country is struggling with the second wave of the coronavirus, the vaccinations and E.U.'s decision to ease leisure travel restrictions are likely to bode well for Air Canada's valuation.

The chances are strong that Air Canada will reach its pre-pandemic valuation soon, but if it takes too much time or the stock stays stagnant for a couple more years, wouldn't your capital have a better chance of growing 100% in another stock?

Air Canada first-quarter 2021 earnings

Air Canada recently posted its first-quarter earnings, and they are quite devastating. The company reported a revenue decline of about 80% from the first quarter of 2020 and an operating loss of over $1.049 billion. It's not just significantly higher than the loss last year, but also a bit higher than the previous quarter. The net cash burn comes out to about $14 million per day.

How investors perceive these results can set the course for the next upward or downward momentum for Air Canada stock. Investors who were hoping the first quarter of 2021 would at least be better than the last quarter of 2020 might start to lose confidence in the stock. However, other, more optimistic investors will likely wait till the next quarter to make up their minds about the long-term potential of the company.

Foolish takeaway

If you are willing to wait, then Air Canada might be a relatively reliable stock to grow your capital 100%, but that's trading certainty for time. Even though it's highly likely that the company will grow back to a $50-per-share valuation, it might take several years to do so. And if you are hoping for a quick recovery, ideally within the year, you might be better off looking at a different stock.

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