Here’s Why You Should Bet on Air Canada (TSX:AC) Stock Now

Description

The resurgent virus continues to weigh heavily on the Canadian airline industry, with **Air Canada** (TSX:AC) taking a lot of heat owing to its exposure to international markets. Notably, Air Canada derived a significant portion of its revenues from international flights and suffered badly amid the pandemic-led travel restrictions and closure of international borders.

Though its stock recovered some of the lost ground on positive vaccine development and a gradual uptick in domestic demand, the resurgence of the virus in Canada continues to hurt advance ticket sales and its overall financial and operating performance.

For instance, its recent Q1 performance failed to impress. The company reported operating revenues of $729 million, down 80% year over year. Further, it also compared unfavourably with the previous quarter where it posted revenues of $827 million. Notably, Air Canada’s available seat miles, or ASM (a measure of capacity), dropped by 82.1% in Q1. Furthermore, its revenue passenger miles, or RPM (a measure of traffic), recorded a decline of 89.5% year over year.

Lower revenues continued to take a toll on its bottom line. Air Canada posted an operating loss of over $1 billion in Q1 compared to $433 million in the year-ago period.

Nevertheless, Air Canada’s net cash burn of $1.3 billion came better than management’s expectations of between $1.35 billion and $1.53 billion. Also, it compared favourably with the prior quarter.

Expect volatility in the near term

The uneven pace of vaccine distribution and lower air travel demand could continue to weigh on Air Canada’s operations and, in turn, its stock price. Further, the closure of international borders is likely to play spoilsport.

Air Canada expects to double its ASM capacity in Q2 compared to the prior-year quarter. Notably, the company reported a 92% drop in its ASM capacity during the same period last year. It simply means that investors could expect the company to deliver weak top-line results, while its losses could remain high in the near term.

Bottom line

I have said before that Air Canada stock is likely to witness a bumpy ride in the short term and could remain highly volatile. However, I am bullish on its medium- to long-term prospects and expect the company to deliver stellar returns.

I expect the COVID-19 vaccine to be widely available in the latter part of this year, which is likely to boost air travel demand significantly. I believe Air Canada's revenues, capacity, and RPMs could improve drastically, as the demand picks up the pace and advance ticket sales soar. Furthermore, Air Canada's focus on diversifying its revenue channels bodes well for future growth.

Notably, it operated more than 7,500 cargo flights since March 2020 and added available cargo space that has contributed to its top line. The company plans to continue using its wide-body cargo aircraft in 2021, which is likely to generate incremental revenues. Also, increased demand from the e-commerce sector and its dedicated freighters will likely boost its cargo revenues in the coming quarters.

Above all, Air Canada stock is trading at a considerable discount compared to the pre-pandemic levels and is and an excellent bet for long-term investors at the current levels.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Coronavirus
2. Investing

Date

2025/08/20
Date Created
2021/05/12
Author
snahata