



Looking Forward to a Vacation? Air Canada Investors Are Betting on it

Description

This past year has been terrible for the travel and tourism industry. Stringent lockdowns, quarantines, and travel restrictions caused aviation firms to suffer heavily. Indeed, it's true that travelers may want to travel as much or more than the airlines hope.

This extreme amount of pent-up demand is bullish for airlines like **Air Canada** ([TSX:AC](#)). Indeed, these are some of the [best reopening plays](#) on the market today. Here's a deeper look into why I think this is the case.

Vacation travel will see an unprecedented surge

Those who believe a reversion toward the longer-term mean will probably like airlines. Suppressed demand could act like a springboard for airlines such as Air Canada. Indeed, I'm of the belief that once restrictions are lifted, Air Canada will likely struggle with capacity issues — this time with having enough capacity to meet demand.

Yes, some structural damage is likely going to be done to business travel. However, discretionary international travel is likely to see a massive jolt coming out of this recession. As it happens, this segment is one of the most profitable for Air Canada. Accordingly, it's the segment I think investors will be paying close attention to in the quarters to come.

While I was very bullish on what would have been an impressively timed acquisition of **Air Transat**, this deal falling through could really be a blessing in disguise for Air Canada. The airline is now able to focus entirely on its core operations. Yes, there's one more competitor out there. However, the deal would have been small to begin with. Having a laser-focused management team on the reopening task is something investors should like.

Bailout package bullish for Air Canada

As Warren Buffett recently said in his annual meeting, "airlines are used to operating in bankruptcy."

Indeed, this sector seems to be boom or bust. When times are good, these stocks do incredibly well. When the economy takes a turn for the worse, not so much.

However, Air Canada knows it has the full backing of the Canadian government. And the recent \$5.9 billion bailout deal is proof of this.

In essence, I don't believe Air Canada can ever really go bankrupt. That is, even in the worst times, the government will always be there to protect its largest airline. There's a floor beneath Air Canada's stock price. I'm not sure where that is, but investors seem to be pricing in a relatively high margin of safety with this stock.

I think such a move is entirely rational. Air Canada is likely to continue to receive indirect or direct government support over the long term. That's a breath of fresh air for long-term investors.

Bottom line

Air Canada is extremely well positioned as one of the top reopening picks in this current market. I think there's certainly a nice risk/reward argument to be made for Air Canada stock today. Accordingly, investors may want to consider this stock at these levels.

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