



Air Canada (TSX:AC) Stock: Is it Poised for a Big Rally Soon?

Description

The shares of **Air Canada** ([TSX:AC](#)) are trading on a slightly positive note in May. The stock has risen by 3.1% this month compared to about 2% gains in the **S&P/TSX Composite Index**. The Canadian government recently gave the airline access to \$5.9 billion in liquidity, which could help Air Canada speed up its financial recovery in the coming quarters. But the company's stock is still trading nearly 18% lower than its 52-week high.

Let's find out if Air Canada stock is poised for a big rally in the coming months.

Air Canada's struggle

A massive drop in travel demand is the biggest challenge that the airline industry is facing right now. Airline companies — including Air Canada — are trying to attract customers by offering big discounts and easy refunds. Despite all these efforts, air travel demand doesn't seem to have improved a lot in the last few months — especially in Canada.

As Canada's vaccine program ramps up in the coming month, the government could ease travel restrictions in the country. This could immensely help companies like Air Canada, whose financial recovery depends mainly on travel demand recovery.

The pandemic created a financial mess

The largest Canadian airline has consistently been missing analysts' earnings estimates for the last five quarters in a row. In the March quarter, Air Canada reported an adjusted net loss of \$1.25 billion — its second-highest quarterly loss during the pandemic phase. Its revenue in the first quarter fell by 80% year over year to \$729 million. It was still slightly better than analysts' consensus estimate of \$669 million. The company's improved revenue from the cargo segment boosted its total revenue figure.

I believe it might take at least a couple of years for the airline traffic to reach pre-pandemic levels. Nonetheless, the possibility of its gradual financial recovery in the near term could be enough to boost

investors' confidence and trigger a sharp rally in its stock.

When to expect a rally?

Commenting on the exact time when this expected rally might occur is extremely difficult. However, investors should keep a close eye on any announcement by the government related to easing travel restrictions in the coming weeks. Any such announcement could at least start a medium-term rally in Air Canada stock.

In the second quarter, Air Canada's financials may suffer as it's currently offering full refunds to customers whose flights got affected by the pandemic-related restrictions since February 1, 2020. To fulfill one of its [commitments](#) in exchange for receiving the government's financial support, the airline needs to resume its regional flight operations on many routes. If the travel demand remains low, such regional flight operations will result in extra losses for Air Canada. These factors make predicting [Air Canada's long-term stock recovery](#) even more difficult.

Foolish takeaway

Overall, the worst pandemic phase might already be over for Air Canada. However, uncertainties about its future recovery still make its stock a bit risky to buy at the moment. I expect the stock to stage a recovery in the coming months when the travel restrictions start easing. Investors with a high-risk appetite may buy its stock on a dip.

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Date

2025/09/22

Date Created

2021/05/18

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