



Air Canada (TSX:AC) Stock Volatility Cools: Should You Buy?

Description

Has **Air Canada** ([TSX:AC](#)) stock volatility cooled off, or is this just a plateau before the bump? Well, there is no news on the airline. The biggest driver of the stock price was the government bailout. While AC did get a [bailout](#), it was not to the shareholders' liking. A 6% equity stake to the government is too much equity dilution for a stock that won't give dividends or buy back shares for the next five to seven years. Has the bailout capped Air Canada's stock price rally?

What's driving Air Canada stock price volatility?

Air Canada's stock price rally is driven by emotions and not fundamentals. The bailout has cooled off the trading activity for a few months till the travel bans last. Traders act on speculation, momentum and news. All virus stocks saw cool-off in April and May as many traders shifted their focus to crypto. AC stock's overall trading volume dropped.

You might see an uptick in AC trading volumes if the crypto bubble bursts. That is when all speculative traders and new investors will rush to the stock market. However, the fundamentally strong stocks were not affected much by the crypto wave. They continued to grow as many investors invested in them as a Plan B if their crypto bet turns against them.

Crypto or no crypto, I expect to see some momentum in Air Canada in September.

Why is September important for Air Canada?

The next big news for Air Canada will come in September 2021. That's when the winter holidays begin. Canadian Prime Minister Justin Trudeau hopes to make the vaccine available to every Canadian by then. Hence, the government has proposed to extend the Canada Emergency Wage Subsidy (CEWS) and other support programs until September. The government has also slated an option to further extend some programs to November if the need arises.

Air Canada is the biggest beneficiary of the CEWS. And now, with the bailout terms in place, it can't cut anymore jobs. This means it will have to bear the entire wage expense by itself, and salaries are the next big expense for an airline after fuel costs. Even after AC cut more than half its workforce and

CEWS took 75% of the salary burden, salaries were its biggest expense in the post-pandemic era. Salaries accounted for 72% of AC's revenue in the first quarter as it's fixed overhead costs and AC is not generating enough revenue due to travel bans.

However, salary expenses should not be a problem in September if the travel ban eases and AC can get to flying again. There is pent-up demand, especially from leisure travellers who have been making a holiday plan during the lockdown. September is also a seasonally strong month for AC as the winter holiday begins. The airline is already [scheduling](#) flights to winter destinations from September to December.

If the skies open up and AC can keep its schedule, the stock could make a new high above \$30. The airline is also asking the government to ease the travel ban. It has suggested restarting travel with precautions like masks, social distancing, and hotel quarantines based on COVID tests.

Should you buy an airline stock?

This is the recovery year for the airline. Many oil and real estate stocks badly hit by the pandemic have already recovered. Air travel is an essential service and AC management is on the right path. I suggest buying Air Canada stock as a speculative bet because it will continue to burn cash for another year even if travel returns.

Until now, the emotions drove the stock over 50% in a year. Now fundamentals are creeping in, and these investors like to see positive EPS, cash flow, and buybacks. However, none of the three elements is in AC's cards for the next three years. This means there could be another bump in September, when the momentum might quiet down once again. Such is the fate of momentum stock.

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Date

2025/07/05

Date Created

2021/05/19

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