



Is the \$50 Ceiling Too High for Air Canada (TSX:AC) Stock?

Description

Air Canada ([TSX:AC](#)) might not be the first stock that comes to mind when someone says “recovery stock,” but it’s usually near the top. Air Canada’s operational revenue was ground to dust by the pandemic. The company was (and still is) burning millions of dollars every day just to stay operational, but it has refused to go down.

Now with the government’s financial aid (despite the cost) and the fact that the airline managed to restore quite a bit of investor confidence, the fear of it declaring bankruptcy is a thing of the past. Even the dismal [first-quarter results](#) were not enough to push the valuation of the company down to new depths.

But while the stock is sustaining its value, it has also become relatively stagnant. It has been hovering around the \$25 median line ever since 2021 started, and investors are beginning to wonder whether the hope that Air Canada stock will reach \$50 is foolish.

\$50 threshold

The \$50 valuation mark is what the company reached before the pandemic brought it down to its knees. It was the peak that many investors are hoping the airline stock will “revisit” once it actually starts recovering, but the problem is that it might not happen as soon as many were hoping for (within this year). The company is urging the government to lift bans and ease travel restrictions, so it can actually do some business.

Canada has handled the pandemic well, and the number of new cases is coming down sharply, but the rest of the world isn’t that lucky. The pandemic recently devastated India, the second-most populous country in the world, and as long as the fear of new variants is fresh and a decent portion of the country is not vaccinated, the airline might keep seeing diminished demand and will keep operating at a fraction of its full capacity.

From stagnation to growth

Air Canada's resilience and the fact that its dominance in Canadian skies have remained undiminished even after the pandemic will allow the company to retain investor confidence. But the company might not see a spike in buying activity without a catalyst. The most natural catalyst would be positive second-quarter results, but a major spike in travel to and from the U.S. can spur investors to buy more and push the price up.

On the flip side, if Canada starts enforcing vaccine passport, something that the U.S. federal government isn't on board with (yet), the airline might suffer through a few more quarters of limited operations.

Foolish takeaway

Even though the delivery wing of [Air Canada](#) couldn't possibly financially salvage the situation for the airline, Air Canada is focusing on it. And once the pandemic and its repercussions for the air travel and hospitality industry are behind us, the cargo business might become the new engine for Air Canada's growth. If the airline decides to it wants to try to acquire **Trans AT** again, the company will have an even more solid footing in the industry.

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