



## Will Spring Come for Air Canada (TSX:AC) in September?

### Description

**Air Canada** ([TSX:AC](#)) stock has reached a plateau after the government bailout in early April. This has made investors anxious about whether the stock has lost its momentum. But a two-month of little activity is too little a time to give up on the momentum stock. The bailout has protected Air Canada from bankruptcy, thus removing the fear of the stock falling back to the \$20 price. Now, you have to wait for the spring, which will most likely come in September for AC.

### The September spring of Air Canada

I expect AC stock to hover between \$24 and \$26 for the next three months as the bailout money and terms have reduced the uncertainty that caused the volatility.

Prime Minister Justin Trudeau has started the one-dose summer campaign. He assured that by September, Canada would have enough COVID-19 shots for anyone who wants to get vaccinated. With the maximum population having received the first dose, the two-dose fall would likely follow. The vaccine will create herd immunity. It is not yet clear what degree of risk vaccinated people will be exposed to. Hence, everyone awaits the federal government's guidelines on travel restrictions.

Air Canada is [asking](#) the government to ease the hotel quarantine rules. Instead of making it mandatory for everyone who travelled from abroad to be in quarantine, it is asking for a science-based approach. However, I believe the government will consider this method, most likely in September.

AC is taking the leap of faith and scheduling flights to holiday destinations for September. It hopes international skies will open by then. If they don't open, at least the government will use scientific methods for quarantine.

### Pent-up demand for air travel

Air Canada is optimistic about the return of air travel demand. The delay in opening international skies is not killing air travel demand but piling it up. The European Union is easing travel restrictions and opening borders for fully vaccinated foreigners from countries with low infection rates. Even the Joe Biden administration is considering opening the U.S. borders using a more scientific approach.

The U.S. Transportation Security Admin (TSA) checkpoint numbers [show](#) that there are above \$1.8 million daily travellers in May compared to 2.5 million in May 2019. This data shows that pent-up demand is bringing the traveller count closer to pre-pandemic levels. This kind of demand with reduced capacity will bring significant cash flows and help airlines recover faster than expected.

## Can Air Canada stock return to the pre-pandemic level faster than expected?

During the pandemic, many airlines cut cost, reduced capacity, and retired old aircraft to slow the cash burn, which makes them more cost efficient. Hence, as the pent-up demand fills the reduced capacity, many airlines' cash burn is falling.

**Southwest Airlines** stock has already recovered to the pre-pandemic level, while **Delta Airlines** stock has recovered partially. These two airlines have a stronger balance sheet and lower net loss than other U.S. airlines. Such is the case with Air Canada. Its balance sheet is better than Delta but weaker than Southwest. Even with the 6% equity dilution to the government as part of the bailout, AC has the potential to ride the recovery rally.

Seeing the recovery of its U.S. counterparts, I believe AC stock could recover to the pre-pandemic level of \$50 as early as next year. Even in its most trying moment, the stock surged 47% in the last 12 months. But the recovery rally will only begin when the Trudeau government shows signs of easing in travel restrictions.

If you can cancel the noise and patiently wait for a year or two, AC stock can double your money despite the weak fundamentals.

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