



Waiting for the Recovery Rally? It's Time to Buy Air Canada (TSX:AC) Stock

Description

2021 is the year of recovery. Many pandemic-hit sectors, like energy, retail, and real estate, have recovered significantly. But what about the airline sector? This sector was the hardest hit, as governments worldwide imposed travel restrictions. The global vaccination drive is showing signs of recovery. Many economies are reopening, and so is international travel. Is it time to buy **Air Canada** ([TSX:AC](#)) stock?

For that, let's look at AC's recovery history and understand what kind of returns a recovery rally will give.

The last recovery of Air Canada stock

Remember the 2002-2003 SARS epidemic? It took Air Canada 10 years to recover. At that time, the airline also went bankrupt, emerged from it in September 2004, and returned to the Toronto Stock Exchange in November 2006. However, that was the time when everyone was putting their money in financial institutions. This created a financial bubble and led to the 2009 crisis.

While the market recovered in 2011, it took AC two more years to recover. But this recovery was followed by a long-term growth cycle that lasted seven years. In these seven years, AC stock surged almost 2,800%. In dollar terms, your \$1,000 investment converted to \$28,000. That's impressive growth driven by the increase in air travel demand.

In these seven years, low-cost airlines flourished, international air travel became frequent, and globalization created global companies. Business travel was the highlight of the growth, as that's where the money was.

The present recovery of Air Canada stock

Air Canada learned from the SARS crisis and improved its efficiency and balance sheet. It was this financial stability that allowed AC to survive without a bailout in the pandemic crisis. The crisis brought

nothing but losses to the tune of \$5 billion and debt of over \$12 billion for AC. And yet, the stock has surged 47% in the last 12 months.

What led to this rally? There are many factors. The ease in stock trading, zero-commission brokers, more money in the hands of investors thanks to the stimulus checks, and growing interest in the stock market. New-age investors are willing to take a risk and do active trading because of zero commissions. Hence, the stock market these days is more sentiment driven than fundamentals driven.

Now, AC fundamentals won't improve for the next two years, even if air travel demand returns to the pre-pandemic levels. The airline reported a [net loss](#) of \$5.95 billion due to the pandemic. That level of net loss will take time to recover.

Is there a future recovery for Air Canada stock?

I believe AC stock could recover to the pre-pandemic levels by next year thanks to the pent-up demand for air travel. Most of this demand is from leisure travellers that have been stuck in their home country for 15 months. There are hopes that the Justin Trudeau government will ease international travel restrictions and allow science-based quarantine by [September](#).

A surge in air travel demand could push AC stock to the pre-pandemic level of \$50, representing a 100% upside from the current stock price. However, whether this recovery will follow a growth trend is difficult to say. In 2013, the growth cycle came after Air Canada reported its first profit in 10 years.

If history repeats itself, AC investors will have to wait for at least five years before they can see a profit. And that could also be the time when the government could exercise its equity warrants and get a 6-10% equity stake in AC.

What should you do?

I would suggest you invest 3-5% of your portfolio in AC stock and hold it till the end of 2022. This stock has the potential to double your money by then. If the growth stagnates, you can book profit or wait for the growth cycle to begin. There could be significant returns for those who wait.

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