Air Canada (TSX:AC) Momentum Returns: Is $50 the Next Destination?

Description

Air Canada (TSX:AC) stock has surged more than 3%, surpassing the $27 mark. This is the first time since the government bailout on April 12 that the stock has crossed $27. This shows that investors are past the 6% equity dilution the bailout brings and are now hoping for a brighter future. The news that helped Air Canada break the growth barrier was the airline's return to North Bay, Ontario. Does AC stock have the potential to reach $50 by May 2020?

Air Canada momentum returns

Before the bailout, Air Canada stock surged on hopes of reopening of skies. Every time the airline scheduled flights, they later got cancelled due to a surge in COVID cases. But this time it's different. The vaccination drive is in full swing. Prime Minister Justin Trudeau's one-shot summer is on track to have maximum Canadians vaccinated by September.

Many European countries have opened skies to foreign travellers who are vaccinated and travelling from countries with low infection rates. Even the United States is looking to open doors to foreign travellers. The U.S. Transportation Security Admin (TSA) data shows that traveller count is returning to the pre-pandemic levels thanks to the pent-up demand. It wouldn't be wrong to assume that AC will see the same air travel demand as its U.S. counterparts.

When Air Canada stated it will resume flights to North Bay starting June 28, investor optimism returned. It is also scheduling flights for tropical destinations in September and December.

Can Air Canada stock reach $50?

If travellers return to the pre-pandemic levels, can Air Canada stock too return to that level of $50? Investors do not invest in airline stocks for earnings or dividends but for demand and revenue growth. AC has reduced its fleet capacity by 33% by retiring old aircraft. Its current fleet and its downsized operations are the most cost efficient. The only problem is debt.

If air travel demand returns to the pre-pandemic levels, AC's losses will reduce, and its revenue would be able to fund its operations. This could remove the need for AC to withdraw the $2.5 billion unsecured bailout loan. This loan gives the Canadian government the right to buy a 4% additional equity stake in the airline.

There are many positives if air travel demand returns with full force. Probably, AC has adjusted to the fact that business travel (its profit generator) will never be the same. Hence, it is looking to offset permanently lost business travel with air cargo and the Aeroplan loyalty program.

A risk you'll have to account for

While there are hopes for the return of air travel, there is a risk of another wave of a mutant virus. But this time, the probability of this risk is low. No mutation in the virus has rendered the vaccine ineffective as of yet. But this is a risk you will have to account for.

Air Canada stock has the potential to reach $50, but the discounted risk could make it a challenge to reach that mark. I would rather keep a cautious approach and expect a rise of not more than $40.

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