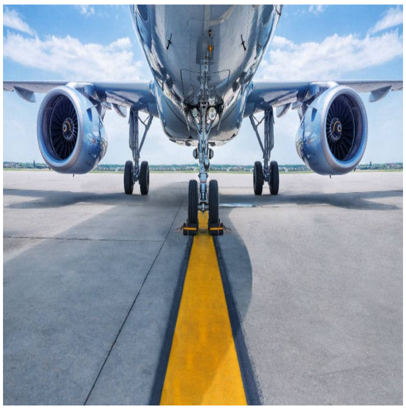

Will Air Canada Stock Take Flight in June 2021?

Description

The accelerated rollout of vaccinations in most developed countries might lead to an improvement in growth rates of these economies. It means the time is ripe to invest in recovery stocks such as **Air Canada** (TSX:AC) that were decimated amid COVID-19. As most global economies imposed lockdowns and shut their borders, domestic and international air traffic came to a screeching halt.

Multiple sectors were decimated including retail, energy, and tourism. But few were hit as hard as the capital-intensive airline industry. For example, Air Canada's revenue in the last four quarters stood at $2.84 billion compared to its record revenue of $19.1 billion in 2019.

But as countries are set to reopen in the second half of 2021, does it make sense to hold Air Canada stock right now?

Air Canada continues to focus on cost efficiencies

In Q1 of 2021, Air Canada reported operating revenue of $729 million, which was a decline of 80% year over year. It reported a negative EBITDA of $763 million compared to EBITDA of $71 million in the prior-year period.

Air Canada's operating loss was over a billion dollars in Q1 compared to an operating loss of $433 million in the year ago period. The company burnt $1.274 billion in Q1, indicating average daily cash burn of $14 million. However, it also ended Q1 with $6.682 billion in unrestricted liquidity.

During its earnings release, Air Canada emphasized, "During the quarter, Air Canada's cash burn rate progressively improved, albeit moderately given the ongoing impact of the pandemic on advance ticket sales. Air Canada had almost $6.6 billion in liquidity at the quarter's end and we subsequently finalized a financial package with the Government of Canada (primarily comprised of repayable loans) to provide access of up to $5.9 billion more in liquidity. Beyond serving as a layer of insurance, this makes available, if required, the resources necessary to rebuild and compete in the post-pandemic world."

Due to lower air traffic, Air Canada managed to reduce its operating costs by a significant margin. In Q1, the company reported $1.77 billion in total operating expenses compared to its prior-year figure of $4.15 billion.

What's next for investors?

Air Canada is expected to increase sales by 8.9% to $6.35 billion in 2021 and its top-line growth might accelerate by 123% to $14.15 billion in 2022. However, we can see that the airline traffic might not reach pre-COVID-19 levels for another two years. Further, the shift towards remote work might negatively impact the recovery in the high-margin business travel verticals going forward.

Last year, Warren Buffett explained that **Berkshire Hathaway** made a mistake by investing in airline stocks, as it is a highly cyclical industry. The Oracle of Omaha also vowed never to enter this space again, as a sustainable competitive advantage has been elusive for several decades.

Bay Street has a 12-month average price target of $28 for Air Canada stock, which is marginally higher compared to its current trading price of $27.25.

Air Canada stock might gain momentum this month if the outlook for airline companies improves. Alternatively, it might also fall from current levels if COVID-19 infections continue to spread all around the world.

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