



## My 1-Year Prediction for Air Canada (TSX:AC): Runway to \$40

### Description

Historical graphs have shown that those who buy strong stocks during a recovery stand to get better returns than those who chase the rally. It is easy to be optimistic when things are fine. But the real challenge is to not lose hope when things go wrong. It seems like **Air Canada** ([TSX:AC](#)) has passed the phase of doubt and is in a strong spot of recovery. The next 12 months are crucial for the airline stock, as it could ride the runway to \$40, representing about 50% upside.

### Air Canada's experience with crisis

It is human nature to panic at times of crisis, as you don't know who will survive and who will perish. Such was the case with airlines. Hence, even the value guru [Warren Buffett](#) sold US\$6 billion worth of airline stocks. This is because they have the nature of a phoenix: they burn (go bankrupt) and then rise again from their ashes. Many airlines went bankrupt in the pandemic crisis and re-emerged through restructuring.

Air Canada faced a similar crisis before. The 2002-2003 SARS epidemic left the airline bankrupt. It took the airline almost seven years to return to profits. The magnitude of the COVID-19 pandemic was far more than the SARS epidemic, yet the airline survived. This is because it learned from experience. The stocks need time to recover, but they grow stronger with experience and have a better chance at survival the next time.

### Air Canada's one-year prediction

After learning from its mistakes, AC is in a better position to recover from the crisis. Unlike the last crisis, flying has become more common. This time, AC has a \$5.9 billion bailout package to fall back on. The current financial state of the airline is dire, with almost \$6 billion in net losses over the last five quarters and [net debt](#) of \$6.17 billion. These pandemic wounds won't be easy to heal. But the new-age investors have the patience. They are not concerned about the profits but the revenue growth and the ability to sustain.

Many American counterparts of AC have seen an 80% recovery in the number of passengers. That means the 15-month restricted travel did not diminish hopes to fly again. There is huge pent-up

demand, especially from leisure travellers. AC has revised its Aeroplan loyalty program to monetize this demand further. Moreover, the airline is tapping the air cargo opportunity the e-commerce wave has opened.

There is significant revenue growth coming in the latter half in hopes that travel restrictions will ease. At present, it looks like September will bring an early Christmas for AC, as the Canadian government is considering easing quarantine rules. Although the government's decision is still hanging onto a cliff, the probability of easing restrictions is higher this time.

The coming quarter from July to September could see Air Canada on the runway, surging to \$32-\$35. In the holiday season from September to December, it could take a flight to \$40 if things go as planned this time.

I would go a little bullish and even expect AC stock to cross the \$40 mark in February 2022 if the airline's earnings beat expectation. But this is a long shot.

## Contingency check

Among the above bulls, there could be some bearish moments if there are any contingencies. For instance, there could be a new mutant virus attack that revives 2020 memories. In such a scenario, the stock will see a dip, but it likely won't fall below \$20. This dip would be your opportunity to buy more stock.

Another contingency check could be a slowdown in air travel demand after the airline caters to the pent-up demand. At that time, AC stock could see some correction and the growth could plateau. Something similar happened to **Lightspeed POS** in [March](#).

Buy the dip to tap the recovery rally.

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