



Reading Thoughts of Air Canada (TSX:AC) Investors: Is Recovery in Cards?

Description

The last week was emotionally drowning for stock market investors. On the one hand, Redditors were playing short squeeze with [meme stocks](#) like **BlackBerry**, **GameStop**, and **AMC**. On the other hand, **Air Canada's** ([TSX:AC](#)) shocking reveal of the \$10 million bonus to the management sent a wave of anger among shareholders. The airline received a lot of criticism from their new major shareholder, the Canadian government. But that didn't have much of an impact on the stock price, which fell just 1.5%.

Is recovery is in the cards?

Reading the thoughts of Air Canada investors

You might wonder why investors didn't react to the airline boss bonuses. The government was furious and unanimously voted to condemn the airline's handout of executive bonuses. The worker unions criticized the management for using the money to give a pat on their back for firing 25,000 employees. The media was filled with [negative comments](#); the airline didn't have money to refund ticket money to their customers or pay a salary to employees, but they had money to award a bonus to the management.

If you look at the true nature of the news, the management gave up on their compensation and bonus during the peak of the pandemic. The Canada Employment Wage Subsidy (CEWS) catered to employees as it had a maximum threshold of \$847 per week, which comes to \$3,388 per month. These efforts did not pay for the management's salaries.

Shareholders were not bothered about the bonus, as they had already discounted the stock for the 6% equity stake the government got against the \$6 billion bailout. Investors knew the government intervention will keep the airline in check over job cuts, route cuts, and ticket refunds. This may not bode well for the return to profitability, but that is the price AC had to pay for cheap bailout loans that brought significant interest savings.

If you weigh the increase in interest savings from the bailout against the reduction in cost savings, the former offer was too lucrative to ignore. And now, when the airline management tried to give themselves a bonus, the government was there to tie them down. Hence, AC stock lost its momentum since the bailout in April.

The hope of Air Canada recovery is brighter than the bonus

A \$10 billion bonus against a \$1.4 billion customer refund and \$528 million in salaries look small. Investors left the bonus issue for the government to tackle. They are more focused on the road ahead as global economies reopen. People are planning their winter holidays. The Justin Trudeau government's two-shot September vaccination drive is on track.

The beautiful thing about human emotions is that hope is stronger than criticism. Bad news has a significant blow, but it fades fast. But hope brews slowly, and its effect is lasting. The year 2021 is the year of recovery. And if you do the math, recovery has a higher upside and a lower downside. A stock that falls 50% from \$10 to \$5 has to grow 100% to recover to the \$10 mark.

Similarly, AC stock fell 72% from \$45.4 to \$12.4. If it recovers to the pre-pandemic level, it will be a 266% surge. The stock has already recovered 117% and has room for another 68% recovery rally.

Final thoughts

Many beaten-down stocks have already recovered by a significant percentage, leaving little options for investors. With signs of recovery in air travel demand to the pre-pandemic level (thanks to the pent-up holiday plans), investors find AC as a viable option to ride the recovery rally.

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