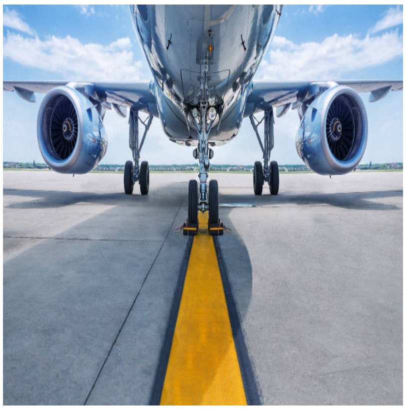

3 Reasons to Buy Air Canada (TSX:AC) Stock Today

Description

In 2020, I'd warned against buying **Air Canada** (TSX:AC) for the long term. I stand by the statement. It is but a speculative stock whose fundamentals have been shaken by the pandemic. Being risk averse is not a bad thing. But if you want high returns in a short time, a little risk is inevitable. Crypto traders take an unsurmountable level of risk, where a 40% upside or downside is normal. I am not saying you should take such a high risk, but AC is a calculated risk with a limited downside of 29% ($20) and a potential upside of 42% ($40).

Just invest 5% of your portfolio in Air Canada today and hold it for at least one year. It could give you a double-digit growth of up to 40%, despite its $6 billion net loss in the past five quarters. What makes me bullish on this stock is not its history but its near-term future. Remember, the stock price is based on the future earnings potential of a company. I'll give you three factors that will drive AC's growth in the near term.

Betting on recovery stocks

Between November 2020 and January 2021, you saw the power of the recovery rally. Air Canada stock surged 25% in one day when the vaccine news came. It broke the $15 mark and made a new high of $27.5. In March, the second wave of the pandemic cooled, and AC stock made a new high of $32. With every wave, AC stock's high surged, and so did its low.

And unlike last time, the airline is now on a permanent road to recovery. The vaccine rollout is in full swing, and the government is considering easing travel restrictions. AC stock is on the brink of a recovery rally. But unlike other pandemic-hit stocks that have returned to their pre-pandemic levels, AC stock might see some discounting.

The stock traded at $50 before COVID-19, and the virus has left some deep scars in the airline business. Many airlines expect to see a permanent loss of a portion of business travel. Hence, I take a cautious estimate and expect the stock to recover to $40, representing a 41.6% upside from the current price.

But this recovery rally won't last. Once things normalize, fundamental will sink in, and AC's stock price growth might stall. That is the time to book profit and invest in a dividend stock.

Air Canada returns to international skies

Another reason to buy Air Canada stock now is that the airline is poised to reinstate several of the routes it closed in the pandemic. This is something the airline can't run away from. It is one of the conditions of the $5.9 billion government bailout.

Starting as early as June 20, it will resume flights to India and some European countries. In August, it plans to reinstate some routes to the United States. The airline has also started scheduling flights to holiday destination for September. And there is pent-up demand from leisure travellers. This pent-up demand could help it sell expensive seats. AC could report revenue growth of 40-60% because of the weak 2020 figures.

Air Canada expands international cargo service

Another area for shareholders to look at is Air Canada's international cargo service. While many passenger airlines failed to profit from air cargo service in the past, AC could hit the nail given the e-commerce revolution. Many logistics companies could outsource their air cargo orders to AC. This business is at a nascent stage and has to prove its value to customers and shareholders.

Investor takeaway

Recovery, pent-up demand, and cargo services are good enough reasons to buy the stock for the short term. But this doesn't remove the downside risk. The airline industry has too much supply and huge debt. But AC is well positioned than most of its competitors to tap the upside and mitigate the downside.

Invest 5% of your portfolio in AC but also hedge your portfolio downside with resilient dividend stocks.

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