Air Canada (TSX:AC) Stock: Why Analysts Are Raising Their Targets

Description

Air Canada (TSX:AC) has been one of the worst-hit large-cap stocks due to the global pandemic. After its shares saw 53% value erosion in 2020, investors were expecting a sharp recovery in the stock this year with the help of improving travel industry outlook. However, the stock has seen only 14% year-to-date gains compared to a 16% rise in the **TSX Composite Index**. While some Bay Street analysts are raising their targets on Air Canada stock, bears expect some negative factors to continue hurting the stock recovery.

Before we discuss these risk factors in detail, let's take a look closer look at some latest Air Canada news and how it's moving the stock lately.

Air Canada stock: Latest news

In the week ended on June 25, the TSX Composite benchmark rose by 1.2%. In contrast, Air Canada stock continued to trade on a negative note for the second consecutive week. The stock fell by 6.7% last week after losing 2.8% in the previous week.

The airline recently extended its COVID-19 refund policy deadline by 30 days to July 12, 2021. Under this policy, the largest Canadian airline is taking refund requests from "eligible customers who purchased a non-refundable ticket before April 13, 2021, for travel on or after February 1, 2020, but who did not fly for any reason."

Nearly 40% of such total 1.8 million eligible customers had already requested a refund by June 10, 2021. Air Canada's continuously rising expenditure due to these refunds and a delay in its financial recovery could be some of the reasons taking a toll on investors' sentiments right now.

More refund-related issues in the U.S.

Another big blow to Air Canada investors came earlier this month when the U.S. Transportation Department filed a formal complaint with an administrative law judge against the company due to its delay in providing refunds to consumers. With this, the transportation department sought a US$25.5 million fine from Air Canada for the delays. These factors explain why its stock has been trading on a negative note in June.

But analysts are raising their targets

While Air Canada may continue to struggle with rising expenses in the short term, the rising travel demand amid the reopening economy could be a positive sign for its financial recovery prospect in the coming quarters. This could be one reason why some Bay Street analysts are seemingly turning bullish on its stock.

Recently, analysts at TD Securities raised their Air Canada stock target price to $34 per share from $30 per share. TD Securities updated target price reflects more than 30% upside potential from AC's current market price of $25.91 per share.

Should you buy its stock now?

Air Canada stock has consistently been sliding for the last 10 sessions in a row. The stock is now hovering right above a major support range of $25.80 to $23.70 per share. In general, stocks tend to see a bounce back from key support levels. That's why I would recommend long-term investors with a good risk appetite to consider buying its stock between this price range.

However, investors with a low-risk appetite might want to avoid buying it right now due to Air Canada's recovery-related uncertainties in the near term. Such investors may consider buying other, cheaper, high-growth stocks instead to get high returns on their investment, in my opinion.

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jparashar