



Air Canada (TSX:AC) Stock: Will it Explode Higher After Lockdowns Are Over?

Description

Many companies hope business operations will [return to normal](#) soon. Meanwhile, investors have eyes on **Air Canada** ([TSX:AC](#)). The airline stock has been stagnant for more than a year. July 5, 2021, is D-Day for the country's flag carrier, as the federal government announced the first phase of lifting international travel restrictions.

The new guidelines allow for fully vaccinated Canadians, permanent residents, and certain foreign nationals to avoid staying in mandated quarantine hotels and self-isolating for 14 days upon arrival.

However, the Public Health Agency of Canada stresses that those who aren't fully vaccinated or unable to receive jabs must complete a day-eight test (over five years old) and a full 14-day quarantine. Still, Air Canada continues to monitor demand for all routes and adjust flight schedules accordingly.

Everyone anticipates something big to come next. For example, [will Air Canada shares explode higher](#) once lockdowns are over and travel restrictions ease?

Stock performance

Right now, the stock's performance does not reflect the rapid pace of Air Canada's recovery. The federal government's \$5.9 billion financial package exclusive for the dominant carrier came on April 12, 2021. However, it did little to propel the stock, as it has been a bumpy ride since then.

While the current share price of \$25.91 is good for a 14% year-to-date gain, it's 4% lower than \$27 on April 12, 2021. The road ahead isn't without obstacles. A potential roadblock is the Delta variant of COVID-19. It could hamper Air Canada's aggressive reopening play just as the peak summertime travel season approaches.

Potential roadblock

The World Health Organization (WHO) reported that as of June 16, 2021, the deadlier variant has spread to more than 80 countries. Jennifer Nuzzo, an epidemiologist at Johns Hopkins Bloomberg School of Public Health, said, "If you're out this summer, the chances are high that you're going to encounter the Delta variant." She added it could be in the U.S., Europe, or other parts of the world.

On June 18, 2021, Rochelle Walensky, director at Centers for Disease Control (CDC), said the unusually contagious delta variant could become the dominant strain in the U.S. this summer. She warned, "It is more transmissible than the Alpha variant, or the U.K. variant that we have here."

Besides the Delta variant threat, Air Canada needs to contend with nuisances. In mid-June 2021, the U.S. Department of Transportation initiated its first enforcement action against the \$8.67 billion airline company. The formal complaint by U.S. officials claims that Air Canada did not make such good faith efforts.

Management insists that Air Canada's no-refund policy did not violate U.S. laws. The company will dispute the allegations saying the DOT's argument has no merit. Thus far, \$1.2 billion was paid to customers who met the airline's refund criteria. Air Canada is processing more refunds, and payments will come from the federal government's financial aid package.

Sad reality

Even if some market analysts see a potential 35% upside to \$35 and recommend a strong buy rating, Air Canada is a risky proposition. We can't say if the summer season is the turnaround period for the airline stock. The price could dip some more if the Delta variant triggers a return to lockdowns. It's unfortunate, but that's the sad reality for the airline industry today.

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