Q3 Outlook: Why Air Canada (TSX:AC) Stock Could Rally This Quarter

Description

The shares of **Air Canada** (TSX:AC) ended the second quarter on a slightly negative note. Its stock lost 2.5% in Q2 after posting solid gains in a previous couple of quarters. Investors' worries about the airline's rising expenses due to its ongoing COVID-19 refund policy could be one of the key reasons why AC stock turned negative in the last quarter. Let's take a closer look at some more key factors that drove its stock price lately before discussing how it might perform in the third quarter.

Air Canada stock fell in Q2

It's important to note that Air Canada concluded debt and equity financing agreements with the Canadian government on April 12. These agreements allowed the airline company to access up to $5.9 billion in liquidity through the government's Large Employer Emergency Financing Facility program.

However, the announcement related to these agreements seemingly failed to boost Air Canada investors' confidence, as the government financial package came with many preconditions. And some of the conditions are likely to potentially increase the airline's costs burden in the coming quarters.

For example, to receive government financial assistance, Air Canada agreed to provide refunds to all eligible customers who purchased non-refundable tickets but couldn't travel due to the pandemic since February 2020. Also, the airline committed to restarting many of the regional flight services that it suspended to save costs amid low demand during the pandemic phase. However, the travel demand recovery on many such regional routes might take a long time. That's why investors feared that resuming flight services on such routes could increase the costs of the already ailing airline company. These factors explain why Air Canada stock ended Q2 on a negative note.

Q3 outlook

I expect the third quarter to be significantly better for Air Canada stock and the airline industry in general. Even after receiving the government's financial support package and good liquidity, Air

Canada's financials might not have recovered till the time the travel demand remains low. That's why I pointed towards the low travel demand earlier this year while suggesting investors to avoid buying Air Canada stock.

However, things have started looking much better for the airline industry now as the travel demand is picking up — especially across North America and Europe. A popular American airline company recently told its employees that it might not have to cut its workforce again this fall, as the travel demand is surging. Travel demand recovery alone could boost Air Canada's overall business outlook and start a good recovery in its financials. Although I expect the ongoing battle between bulls and bears to continue in the short term, AC stock could soon begin a good medium-term rally.

Final thoughts

Air Canada stock is currently trading with only 12% year-to-date gains against a 15.7% rise in the **S&P/TSX Composite Index**. I consider a recent dip in the stock an opportunity to invest in the Canadian flag carrier for the long term at a bargain. Considering all the positive factors related to the surging travel demand that we discussed above, you may want to add AC stock to your portfolio right now.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing

Date
2025/09/11
Date Created
2021/07/01
Author
jparashar