Could Air Canada (TSX:AC) Stock Reach $50 in 2021?

Description

TSX stocks at large fully recovered from the pandemic losses last year and have been making fresh highs for months. However, Canada's biggest passenger airline **Air Canada** (TSX:AC) stock is trading 50% lower than last year's high of $52. While many re-opening plays have recovered losses, Air Canada is trading way lower than its record highs. Can it breach $50 a share this year?

AC stock: Upbeat outlook

Expected higher consumer spending amid re-openings is expected to majorly lean towards travel and leisure. As a result, Air Canada, the passenger airline with the largest market share, will likely benefit from the pent-up demand. Even though the recovery will be gradual and may take time to boost the bottom line, its revenue growth should fuel its stock.

While its revenues and earnings kept deteriorating for the last few quarters, Air Canada's relatively lower cash burn rate has been the silver line. Its average daily cash burn rate stood at $14 million for the last 12 months, much lower than its U.S. peers. Also, it has received a $5.9 billion bailout package from the Canadian government, which is equivalent to almost two years of liquidity. Notably, this capital will likely be enough till air travel demand normalizes post-pandemic.

Analysts expect Air Canada's 2022 revenues at around $14.4 billion. Considering the historical average EBITDA margin of 15%, Air Canada's next year's EBITDA will likely be close to $2.15 billion, suggesting an EV-to-EBITDA multiple of 7.5. This does not look exorbitant and indicates handsome upside potential.

Challenges and risks

While passenger airlines could see pent-up demand post-pandemic, their road to recovery will certainly be challenging. The mutating variants of the coronavirus pose a severe challenge to reopenings and, ultimately, aviation companies. Restrictions for a longer period could result in more losses and more cash burn for companies like Air Canada, delaying their recovery.

In addition, rising jet fuel prices will likely increase operating costs for Air Canada as it sees to resume operations. Fuel costs account for approximately 30-40% of the airlines' total operating expenses. Thus, crude oil prices should trend north, as economies re-open and significantly dent airline's financials.

Another risk for Air Canada is the country's blanket travel restrictions. Canadian authorities have been especially conservative and have put stringent curbs on international travel since last year. While many developed countries have opened travel, Canada is far behind, mainly because of its comparatively slower vaccinations.

Conclusion

Despite the challenges, Air Canada stands tall because of its strong balance sheet and leading market share. While $50 a share seems a tall target for now, it is not impossible at all. During October last year and March 2021, Air Canada stock more than doubled on vaccine launch and re-opening hopes. The next six months will also be crucial and could drive significant growth for it. Revenue recovery and potential lower cash burn could push AC stock beyond $50 as air travel normalizes.

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