



3 Reasons Air Canada (TSX:AC) Stock Could Rebound by 2022

Description

Air Canada ([TSX:AC](#)) stock has probably been the most impacted during this crisis. The airline industry was the first to feel the impact of pandemic-related restrictions and could be the last to benefit from the economic rebound. Nevertheless, the stock has plenty of potential to deliver tremendous returns in the years ahead.

Here are the top three reasons Air Canada stock could rebound strongly by 2022.

Government support

In every previous crisis, the federal government has stepped in and bailed the company out. That's because the airline is a vital job creator. Pre-crisis, the airline employed roughly 33,000 people, which made it one of the largest private employers in the country.

This makes the airline industry strategically important for governments and puts a safety net on Air Canada stock. This year, the government offered the company a \$5.9 billion bailout deal. That should effectively eliminate Air Canada's risk of bankruptcy.

Pent-up demand

While bankruptcy is off the table, a rebound in air travel is certainly on the cards. Much of Canada's population has been vaccinated, and the country could achieve herd immunity before the end of the year. That should allow the government to ease border restrictions.

Meanwhile, domestic travel has already started to rebound. Domestic travel has recovered to pre-pandemic levels in the United States, which suggests Canada could experience a similar recovery. After a year of government benefits and a lack of spending opportunities, Canadian families are sitting on excess savings and have pent-up demand for travel and leisure.

The company's top and bottom line could look much better when air travel recovers and ticket prices surge higher. However, Air Canada stock hasn't reflected this yet.

Valuation

Air Canada stock is still trading at roughly half its pre-crisis level. At the time of writing, the company is worth \$8.42 billion. That's just three times annual sales and just 43% higher than the government's bailout package.

Assuming sales double by next year — reflecting a full recovery — the current stock price is trading at a forward price-to-sales ratio of under 1.5. In other words, the recovery hasn't been priced in yet. This rebound has already started in American airline stocks. Most major American airlines have gained value this year and could surge even higher as domestic travel recovers throughout 2021.

Bottom line

Air Canada was one of the first economic victims of the crisis. Air travel was shut off immediately when cases started to rise in 2020. Border restrictions are still in place. However, with the vaccination drive in full swing air travel could rebound strongly in the latter half of 2021 and much of 2022.

Air Canada stock could have significant upside in 2021 and 2022, as air travel resumes and sales recover. Meanwhile, the downside risks are capped by the government's bailout package. This is a low-risk, undervalued stock. Keep an eye on it.

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vraisinghani

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