



Air Canada (TSX:AC) Stock Hovering Around \$25: Is it a Good Buy Next Week?

Description

Air Canada ([TSX:AC](#)) stock has been hovering around \$25 for the past three weeks. The next week could see some momentum in the stock, as it releases its second-quarter earnings on July 23. Earnings season is an important event, as investors price in their expectations. The upcoming earnings could give some direction to investors on how the airline plans to ride the [bull market](#), which was triggered by a recovery rally. I will discuss whether Air Canada stock is a good buy at \$25.

The earnings effect

What is a stock price? It is the price that investors are willing to pay to get a share in the company's future revenue and earnings growth. The stock price fluctuates on the news, as it influences investors' expectations about the earnings. So, you can only imagine the importance of earnings for any stock. It is like a report card of the company's performance and action plan to achieve its targets.

Air Canada stock surged 40% and 15% within a month of its fourth-quarter 2020 and first-quarter 2021 [earnings](#). Since then, the stock has corrected 12% from its June high, allowing you to buy the stock at a discount before another rally.

Now, the question is, can Air Canada's upcoming earnings repeat the history and instill investor's confidence in its growth prospects?

What to expect from Air Canada's upcoming earnings

The first-quarter earnings eased investors' concern about the piling debt of AC thanks to the government's \$5.9 billion bailout. At that time, the airline stated that it expects to double its capacity in the second quarter compared to the same quarter of 2020.

The most important element in the upcoming earnings is capacity and revenue growth. After 15 consecutive months of lockdown, the skies are reopening with some degree of restrictions. The government is working with AC to instill COVID-test-driven quarantines. July has been filled with [news](#) about several international and domestic routes AC reinstated. It plans to resume 17 routes to 11 destinations in August.

With planes back in the sky, you can expect some double-digit revenue growth compared to last year. The U.S. airlines have already started seeing pre-pandemic level passenger traffic thanks to the pent-up demand for leisure travel. AC could witness similar traffic as travel restrictions begin to ease.

Should you buy Air Canada stock at \$25?

Coming back to the real question ... should you buy AC stock at current levels? I am bullish on the airline and believe it can ride the recovery rally, despite its \$6 billion net debt and rising oil prices. If you look at the valuations, the stock is too expensive, and you are putting in money to take a share of the \$6 billion net loss it accumulated in the last 15 months.

But it is also true that AC stock surged 70% in these 15 months. This growth comes from the hopes of recovery. Now, the hopes are ready to materialize into earnings. I expect the stock to surge another 40% in the next 12 months to reach \$35, but there is a risk of 0% upside.

If you have already bought the stock, hold on to it. And if you are willing to take the risk, \$25 is a good entry point. The stock's growth could plateau once the recovery rally fades. Hence, it is a good short-term investment.

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