Screaming Buy! Air Canada (TSX:AC) Stock Could Rally Soon

Description

Air Canada (TSX:AC) stock has been consistently falling for nearly two months after posting double-digit gains in May 2021. After losing 53% in 2020, the stock is currently trading with only 6% year-to-date gains. In the last 25 days alone, AC stock has slipped by nearly 18% — prompting investors to doubt its possible recovery.

Nonetheless, some recent positive factors could be pointing towards the start of the company's strong financial recovery. Let's take a closer look at these key factors that also strengthen the possibility of a big recovery in Air Canada stock in the near term.

Fast recovering travel demand

In one of my articles last week, I highlighted how travel demand across North America is surging this summer. The latest airline earnings are confirming this travel demand recovery.

Delta Air Lines — one of the prominent American airline companies — recently cited the rising demand and improvement in business and international travel scenarios for its much better-than-expected latest quarterly results.

While the resurgence of COVID variant cases is taking a toll on investors' sentiments lately, the situation this year might not become as bad as in 2020. The rising vaccination rate and availability of several vaccine options are likely to encourage governments to avoid imposing last year like travel restrictions and shutdowns.

Moreover, most recent economic data is signaling toward rapidly rising economic activities amid reopening economies. That's another reason why I believe that business and leisure travel demand is likely to remain strong in the coming months. The demand factor is enough to initiate a strong recovery in airline companies' financials.

Expectations from Air Canada's Q2 results

Air Canada will announce its Q2 results this Friday. According to Street analysts' latest consensus estimates, the company could report a nearly 61% rise in its second-quarter revenue to $845 million. This sales growth could help the largest Canadian airline to reduce its quarterly adjusted net losses to about $1 billion in Q2. If the airline meets this estimate, its latest quarterly losses would still be much lower than a $1.25 billion loss in Q1.

Overall, I wouldn't be surprised if Air Canada's Q2 financials don't reflect a massive positive growth as its COVID-related refund policy, among other factors, might hurt its results for the last quarter. However, I would pay more attention to its management's financial recovery strategy and how the trend in the airline's travel bookings looks at the moment.

Is Air Canada stock a screaming buy right now?

I by no means want to ignore the potential harm that a consistent rise in pandemic cases could cause to the airline industry. But in my opinion, the ongoing investors' concerns about resurging COVID variant cases could be mainly driven by fears of the pain everyone witnessed last year.

The ongoing sharp recovery in leisure, business, and international travel demand could help Air Canada improve its financials much sooner than earlier expected. This factor could trigger a big rally in its stock in the coming months, I believe.

That said, I would still suggest investors with a low-risk appetite be cautious and look for other safer stocks to invest in until the path to Air Canada's stock recovery becomes clearer.

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jparashar