Air Canada (TSX:AC) Stock: Why Analysts Are Raising Their Target Price This Week

Description

Air Canada (TSX:AC) stock could be set to end another month with losses as it's currently trading with nearly 3% month-to-date losses in July. Previously in June, the stock shed 7% against an 8% rise in the **TSX Composite benchmark**.

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Last week, the company released its latest quarterly earnings and missed Bay Street's revenue and earnings estimates by a narrow margin. This could be one reason why its stock has remained mixed after its Q2 earnings.

Nonetheless, the earnings event also gave investors several reasons that point towards a near-term recovery in Air Canada stock. I highlighted some of these reasons in one of my recent articles. Now, let's also take a closer look at what the majority of Street analysts are recommending on the stock

Analysts are turning positive on Air Canada stock

Since it posted the second-quarter results on July 23, several Street analysts from reputed research firms have raised their targets price Air Canada stock. These research firms included RBC, BMO, Cormark Securities, and ATB Capital Markets.

Overall, about 76% of all the analysts covering Air Canada stock recommend a 'buy' on it as of July 27, while the remaining 24% give it a "hold" rating. The stock is currently trading at $24.94 — nearly 15% lower than these analysts' consensus target price of $29.28 per share.

Improving fundamental outlook

Clearly, analysts have started turning positive on Air Canada stock after the company's second-quarter earnings event. While I don't consider its Q2 results very impressive, its earnings event certainly gave investors a closer look at the airline's improving fundamentals outlook. However, bears might still be ignoring many other factors that the airline mentioned during its earnings event.

For example, the largest Canadian airline, in its latest quarterly report, clearly highlighted how gradually easing travel restrictions are leading to a significant increase in demand and bookings. Also, its lower than initially guided cash burn rate and significantly better cash burn rate guidance for the next quarter should help the airline regain investors' confidence.

Other positive factors

Another important factor that its critics might be ignoring could be Air Canada's strong liquidity position. At the end of the June quarter, the company had about $9.8 billion unrestricted liquidity. This liquidity is likely to help the Canadian flag carrier compete in the international market and help it financially recover faster.

Moreover, Air Canada's management during its Q2 earnings event confirmed that it might not face big staff shortage challenges to meet the surging demand, like some other airlines in the United States are facing right now. This is because the management has already been proactively calling its staff back to work since last month.

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Why buy Air Canada stock today?

While Air Canada's improving financial outlook could be the main reason why Bay Street has started turning positive on its stock, their consensus target price still looks very conservative to me at the moment. Factors like sooner than expected demand recovery, no signs of staff shortage, and enough liquidity could boost its financial results in the coming quarters.

I believe investors' high expectations based on these factors may trigger a big rally in Air Canada stock anytime soon.

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