



Why Is Air Canada (TSX:AC) Stock Still Trading Below \$25?

Description

Air Canada's ([TSX:AC](#)) latest [earnings](#) were supposed to pump up the stock price rally. Then why is it still trading below \$25? If you look at the earnings, there is the hope of recovery from the 2020 levels. For the first time in 15 months, the airline bosses said they are pleased to report a positive outlook. Air Canada is even considering opting out of the government bailout. These are fundamentally positive signs, and still, the stock is down 3.5% from the earnings date of July 23.

Why is Air Canada stock trading below \$25?

I have been bullish on Air Canada and [expecting](#) a recovery to over \$40 in a year. Now, the stock has everything it takes to ride the runway to \$40. But sometimes, the market is slow to respond, probably because the whole stock market momentum is bearish. The TSX Composite Index dipped 4.62% in July. It dipped in July, mainly because of a correction in oil prices. Canadian stock markets are skewed towards oil, as the country houses the third-largest oil reserves in the world.

Then there are other reasons for the market's [bearishness](#), like rising cases of Delta variant and the phasing out of the Canada Recovery Benefit (CRB). The government has reduced the CRB from \$500/week to \$300/week from July 18, thereby reducing liquidity in the hands of investors. Many hedge funds warn of a crash once the free money supply from the fiscal stimulus stops.

Why am I still bullish on Air Canada's recovery?

It is the overall market liquidity that has delayed Air Canada stock's recovery. The stock's trading activity is balanced; it's neither overbought nor oversold. Investors are probably waiting for two dates:

- August 9, when the Canadian government allows fully vaccinated U.S. citizens to enter Canada for non-essential travel.
- September 7, when the Canadian government allows fully vaccinated individuals from any country to enter Canada for non-essential travel.

Before the pandemic, AC earned 22% of its revenue from flights to the United States and 47% from flights to other countries. The pandemic-induced travel restrictions took away almost 70% of its

revenue by closing the borders. Any attempt by AC to find solutions to ease travel restrictions went in vain.

This is the first time in over 15 months the Justin Trudeau government will open borders for non-essential travel. Air Canada is seeing growing demand for leisure travel in the third quarter through advanced bookings. These bookings have pumped in working capital in the airline and reduced the cash burn by 50% to \$8 million per day in the second quarter.

It expects to further reduce the average daily cash burn to \$3-\$5 million in the third quarter, as it reopens routes and fires the flight engines. Air Canada is back in business.

Can the airline opt out of the government bailout?

AC is set to boost its recovery, and this time, it wants to strengthen its balance sheet as soon as possible. The pandemic cash burn forced the airline to raise equity and debt financing to keep the aircraft fleet operational for this day. It is now restructuring its debt to reduce the interest rate.

AC also has \$4 billion in government financing options that it can use if needed. But the problem is if it accesses this money, the government will get an equity stake in AC. It is this stake that has capped Air Canada's stock price growth.

Hence, the airline bosses have just proposed a thought to continue mapping the recovery for some time. And once the recovery begins in full swing and the cash burn reduces, they might opt out of the government's financing facilities later this year. If Air Canada succeeds in opting out, it would mean no additional equity stake to the government. This news could create a big jump in the stock price. But until then, you have to wait and watch.

Final thoughts

Instead of buying the stock after it jumps, buy the current dip and control your fears. Give the stock till June 2022 to give you more than 40% growth.

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