



## Air Canada (TSX:AC) Stock: What's the Ceiling?

### Description

\$30 a share — apparently, that's the new ceiling for **Air Canada** ([TSX:AC](#)) because the stock has been trying to break through it for the last 12 months. It got quite close to this ceiling in March but couldn't break through, and now it's trading around its new "median" — i.e., \$25 a share.

The current performance of the stock is making a lot of investors worried about Air Canada's recovery timeline. The stock is currently trading at a 52% discount from its pre-pandemic valuation, and if it's that low this far in 2021, then maybe a full recovery by the end of 2022 is too optimistic.

Still, investor behaviour and market dynamics are difficult to predict. Even an expected catalyst like a decent earnings report might tip the scales in [Air Canada's favour](#) and send the stock through the \$30-per-share ceiling.

### Air Canada's financials

The company announced its second-quarter results a few weeks ago, and even though they were a significant improvement over the second-quarter 2020 results, the revenue is still a far cry from its pre-pandemic levels. So, despite all the measures the airline has taken to keep its operational costs down, it's still burning through cash at an incredible rate (about \$8 million a day).

The overall bookings are still below pre-pandemic levels, even though the restrictions are easing up, and people seem eager for vacations. It indicates that if Air Canada itself and investors pinned their hopes on the recovery of leisure and vacation travel for the stock's eventual growth to the pre-pandemic levels, they might have to wait for the 2022 season.

Air Canada has secured access to \$5.8 billion in liquidity through the federal government program of LEEFF (Large Employer Emergency Financing Facility). The airline has also secured a term loan and senior secured revolving facility, which ensures that it will *have* the cash to burn and to keep the planes up in the sky, no matter how much the full recovery is delayed.

## The recovery prospects

Air Canada predicts a net cash burn of \$3 million a day (best-case scenario) to \$5 million per day (worst-case scenario) for the next quarter. And if we track the progression, we might see the cash burn stop by the second quarter of 2022. And if that is to be the catalyst for the stock to break through the \$30 ceiling, [the \\$50 mark](#) might be way off in the future.

There is some good news on the business front from Air Canada. **Chase Bank** has added Air Canada to its loyalty program. Even though it's one of several airlines that Chase credit card owners can transfer points to, this might boost the airline's U.S. exposure.

## Foolish takeaway

If you are sure of Air Canada's eventual recovery to \$50 a share, buying now would help you double your investment. You have to determine whether Air Canada is your best bet to grow your capital by a 100% or if you should consider another, less financially beaten-down company. Even a fully fledged [bull market](#) might not be able to carry Air Canada to its dream valuation.

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