Air Canada (TSX:AC) Stock: Is it Finally Time to Buy?

Description

A TSX high flyer in pre-coronavirus era continues to struggle in 2021. **Air Canada** (TSX:AC) posted 27 consecutive quarters of profit before the pandemic and will likely record seven straight quarterly losses next. Other companies operating in the aviation industry, like **Cargojet** and **Exchange Income**, are making money already, although passenger travel isn't their core business.

However, now might be the time to buy or take a position in the airline stock in preparation for the great comeback. The shares of Canada's dominant carrier have gained nearly 50% from a year ago. Market analysts also see a return potential of 25.38%. Its price could climb from $24.23 to $30.38 in the next 12 months. Their maximum price target for this growth stock is $35 (+44.45%).

The worst year for airlines

The International Air Transport Association (IATA) reported that 2020 marked the most extensive decline in airline passengers transported since the 1950s. Based on an August 2021 report by IATA World Air Transport Statistics (WATS), airlines flew 1.8 billion passengers last year — a significant drop of 60.2% from 2019.

International revenue passenger kilometres (RPKs) fell 75.6% year over year due to travel restrictions and border closures. In North America, the passenger loss figure was 401.7 million passengers, or 60.8% lower than in 2019. The top five airlines that posted the highest total scheduled passenger kilometres. **American Airlines** ranked number one with 124 billion.

Bright spot

According to IATA, air cargo prospered in the pandemic, as the market adapted to the transport of medical supplies. The association noted the massive drop in capacity cargo holds of passenger aircraft. Meanwhile, Air Canada shifted to dedicated cargo operations and was the most aggressive to fill the void.

Canada’s flag carrier was also the first to remove seats from the cabin and modify seven passenger aircraft for carrying extra freight. The move paid off, as Air Canada’s air cargo division posted revenue growth of 33% in Q2 2021 versus the same period in 2020. The revenue of the 3,257 all-cargo flights during the quarter represents 67% of total cargo revenues.

Change in business model

Management saw the need to change Air Canada’s business model and operate a dedicated cargo fleet in tandem with passenger services. The company now forecasts between 4% and 6% CAGR for air cargo. Air Canada believes the growth estimate it’s achievable given the impressive quarterly results and hyper-growth in e-commerce.

Matthieu Casey, Air Canada’s senior director of cargo global sales and revenue optimization, said, “We’re tremendously proud of the strongest quarterly results Air Canada Cargo has ever seen.” The plan is to introduce an all-cargo fleet (eight aircraft) and two 767 freighters in service in Q4 2021. Management said its 767s had outlived their usefulness hauling passengers.

Turning the corner

Air Canada remains in the red after the first half of 2021. Its president and CEO Michael Rousseau said the airline would turn the corner soon. The $8.66 billion airline estimates a capacity improvement in Q3 2021 of 65% to below 2019 and reduced daily cash burn of between $3.4 million and $4.5 million.

For Mr. Casey, it should be a strong portrait for the rest of the year due to the continued cargo-only flights and resumption of passenger flights. However, Air Canada isn’t a strong buy yet. Wait for a significant improvement in operating revenues before you invest.

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Date
2025/07/03
Date Created
2021/08/20
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