Air Canada Stock Is Likely to Fly Higher From Here

Description

Air Canada (TSX:AC) stock has proved to be a turbulent ride for traders and investors over the past year. With the latest Delta variant of COVID-19 continuing to weigh on the reopening plays, investors are growing fearful of the possibility of harsher restrictions on air travel. Once Delta peaks, though, I'm willing to bet that Air Canada stock will be back to soaring again despite the now, even if we have to live with COVID-19 for a while longer.

In prior pieces, I urged investors to consider the domestic U.S. airlines over Air Canada, given its greater reliance on international flights. Undoubtedly, Canada has a higher vaccination rate than most other G7 nations. But until other countries can catch up, Air Canada may not be able to see those early-2020 highs again. In terms of reopening plays, I think international air travel may be among the last to 2019 levels of business. Factor in the potential permanent destruction in business travel demand amid the continued rise of the work-from-home (WFH) and work-from-anywhere (WFA) trend, and it becomes more apparent that Air Canada could take at least three more years to see its $51 highs again.

That's disheartening for investors looking to make a quick buck off the continued reopening of the Canadian economy. But is doubling up in three or four years really that bad?

That'd suggest a return of 25-33% annually. That's not bad — assuming you can handle the turbulence and take advantage of the inevitable dips due to COVID-19 waves, quarterly flops, or the need for further government support.

The turbulent ride ahead for Air Canada stock

Air Canada is off 18% from its 52-week high hit back in mid-March. Delta jitters and a slowdown in the vaccination rate are likely contributing factors behind the decline in Canada's top airline. While I have no idea just how low the stock will flop this time around, I do think that dollar-cost-averaging on the way down is the only way to go for investors looking to profit from what could be a recovery that could drag on through 2025.

A bull-case scenario could bring forth timelier gains. But realistically, the high hurdles ahead of Air Canada en route to normalcy could bring forth many bear market pullbacks over near-term bad news relating to the pandemic or any slowdown in the Canadian economy.

What about valuation?

After imploding back in 2020, you'd think Air Canada stock would reek of value. Sell-side analysts covering the name seem to think so, with the latest buy rating coming courtesy of **CIBC**'s Kevin Chiang, who sees the stock making a run for the $33 level, a nearly 35% gain from where shares ended Tuesday's session of trade.

With the U.S. border opening, Air Canada is due to see some relief. That said, new variants and differing vaccination rates could bring forth another border closure by the holidays. Some people may think the pandemic is over. But that's far from the truth. Uncertainties remain, and for that reason, Air Canada stock remains only suitable for those with high-risk tolerances.

Can things get worse from here? Possibly. New variants are emerging, and vaccines may lose their effectiveness over time. But let's not rule out enhanced testing practices and the possibility of vaccine passports, all of which bodes well for air travel demand heading into 2022.

My takeaway? Air Canada stock is a worthy speculative bet for long-term investors.

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