Air Canada’s (TSX:AC) Year-Long Tale of Stagnation

Description

Vaccine delivery gained a lot of momentum in 2021, and a decent amount of the population is now vaccinated. While it should have put the pandemic in the rear-view mirror, the variants are not going to let that happen. The new Delta variant is sweeping the world, and Canada is entering the fourth wave of the pandemic. The number of new cases is rising, and the fears buried earlier this year are starting to emerge.

A new wave, even if it’s not powerful enough to destabilize the market, would definitely be bad for business — at least some businesses, including air travel, which is likely to worsen things for already struggling **Air Canada** (TSX:AC).

Air Canada stock

Air Canada’s market valuation seems to have a different “level” for each year of recovery. The post-pandemic valuation level was $15, and the supposed ceiling was $20 per share. For 2021, it changed to $25, as the valuation level moves around, and the new roof is $30 per share. Currently, the company is trading at $25 per share (dead centre), and the chances of it going lower (as the number of cases rises) are higher than the stock going past $30.

If the losses are relatively mitigated and cash burn is a significant step down from the last quarter, the next quarter’s earnings results might give the company the push it needs to gain traction when it comes to growth. Until then, investors might get used to seeing the stock relatively stagnant.

The future of the airline

Air Canada’s resilience is not under question. The company survived for quite a while before the government intervened and offered financial assistance, and it will live through the fourth wave, possibly without sustaining unnatural losses. It’s laser-focused on its organic recovery and has taken drastic measures to stop the spread of vaccines through air travel.

All Air Canada employees have to disclose whether they have been vaccinated or not, and the ones that didn't get vaccinated without a valid medical reason might face severe official consequences. This is likely to put travelers at ease, because an airline's employees are more of a risk spread than the passengers since they gain exposure to multiple passenger batches within a day.

Air Canada is also resuming flights to Munich — a significant step in growing transatlantic traffic. Cargo, the new focus of the airline, is gaining even more attention now. It made up about 43% of the last quarter's revenue, and the airline might look into ways to growing it even more and leverage its extensive network to carve a more prominent place in the North American cargo industry.

Foolish takeaway

If you still believe that Air Canada will reach its pre-pandemic heights (and soon), you might consider buying this once most-coveted growth stock for a 100% growth. And even though this recovery is almost inevitable, the timeline isn't. The airline might shoot to $50 a share by next summer, or it might languish under $40 for all 2022.

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