Air Canada (TSX:AC) Stock: Should You Buy Now?

Description

With the accelerated pace of vaccination and improved domestic demand, **Air Canada** (TSX:AC) stock recovered sharply from the pandemic lows. However, Air Canada stock reversed almost all of its gains this year, as the rapid spread of the Delta variant of the virus strained capacity and weighed on bookings.

As Air Canada stock has lost a substantial amount of value, one could find it attractive at current price levels. While I expect Air Canada stock to witness volatility in the near term, my long-term view remains bullish. As I maintain a favourable outlook on Air Canada stock, let's take a look at factors that could drive the recovery in its price.

Customers are returning

While corporate demand remains challenged, and overall bookings are still below pre-pandemic levels, customers are gradually returning. During the last quarter's conference call, Air Canada's CFO Mike Rousseau said that bookings are steadily increasing for domestic, transborder, and Atlantic markets.

Though I expect the newer variant of the coronavirus to negatively impact bookings, the economic reopening and accelerated vaccination will likely support a recovery.

Capacity to improve

While the Delta variant played spoilsport, I expect Air Canada's operating capacity to improve sequentially and year over year. It's worth noting that Air Canada operated with 78% more capacity in Q2 compared to the prior year. However, that remained significantly lower than the pre-pandemic levels.

Looking ahead, as bookings improve, Air Canada will likely operate with a higher capacity in the coming quarters. The airline company has gradually expanded its services to an increased number of Canadian cities. Further, it is likely to benefit from demand growth, especially in its transcontinental services.

With the easing of travel restrictions, Air Canada is also ramping up its capacity to the U.S., which is an important growth market and will likely boost its financials. Turning to its international markets, a key enabler of its growth, Air Canada stated that it is observing improved demand, which is encouraging.

Solid cargo revenues

Air Canada's cargo revenues increased by 33% during the last reported quarter. Moreover, I expect its cargo revenue growth rate to accelerate in Q3 and Q4, reflecting increased demand and an enhanced cargo network.

Its dedicated freighters will likely provide consistent capacity. Meanwhile, increased demand from the e-commerce vertical and expansion to newer markets suggest that the company could generate incremental cargo revenues in the coming quarters.

Near-term challenges

Though Air Canada is gradually transitioning into a growth phase, near-term challenges could continue to delay its recovery. Overall, its capacity will remain lower compared to 2019 levels. Meanwhile, cost inflation could pose challenges.

Given the near-term challenges, I expect Air Canada's revenues to remain low. Meanwhile, it could continue to report an operating loss.

Bottom line

Air Canada stock is trading a massive discount compared to its pre-COVID levels, making it an attractive investment, but strictly for long-term investors. While it could continue to struggle in the short term, strong liquidity, strength in the domestic business, momentum in cargo revenues, and cost savings bode well for future growth. Moreover, the easing of travel restrictions and reopening of international borders will significantly boost its financials and accelerate its recovery.

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