Air Canada (TSX:AC) Stock: Why Hasn't it Done Anything Yet?

Description

Loyal investors of **Air Canada** (TSX:AC) remain hopeful that the airline stock can a make a grand comeback. However, it's beginning to sink in that any rebound by the supposed growth stock won't happen anytime soon. After presenting the Q2 2021 operating and financial results, Air Canada's president and CEO Michael Rousseau said the company is turning the corner.

However, the stock's performance doesn't show investors' optimism. The current share price of $22.91 is 36.6% higher than a year ago, although the year-to-gain date is only 0.6%. Meanwhile, market analysts have an average price target of $29.28 in the next 12 months. But given the prevailing uncertainties in the airline industry, the forecasted 29.38% upside potential could be a tall order.

Urgent call to action

Willie Walsh, director-general of the International Air Transport Association (IATA), confirmed that international travel remains 70% down on pre-crisis levels. He stressed that government-imposed restrictions hinder the revival of international travel.

The air transport body Walsh represents is urging governments to make real progress towards restoring global air connectivity. IATA directs the new call to the states that were present during the International Civil Aviation Organization (ICAO) High-Level Conference on Covid-19 (HLCC) in early October 2021.

Conference attendees committed to adopting 14 agreed measures to help the revival of aviation. IATA said if states act soon, it will enable airlines to meet the demands of consumers worldwide and revive air travel. The measures cover the implementation and recognition of testing, recovery, and vaccinations certificates.

Moreover, it's a harmonized multi-layer risk management approach, says IATA. It includes the entry of fully vaccinated and recovered passengers. Another important recommendation is the adoption of the digital IATA Travel Pass to manage travel health credentials. Walsh added, "Airlines cannot afford a restart that is compromised by paper-based processes for checking travel health credentials."

Rebuild stronger and rise higher

On the part of Air Canada, Rousseau said the country's flag carrier will rebuild stronger and rise higher than ever before. The $8.2 billion airline received debt and equity support from the federal government on April 12, 2021. Still, it wasn't enough to excite investors.

Instead of rising, the airline stock went on a roller-coaster ride, reaching $28.73 on June 9, 2021. You can also see the weakness from Air Canada's 50-day ($23.35) and 200-day (25.06%) moving averages. The company continues to burn cash, although management projects it to be lower ($3 to $5 billion per day) in Q3 2021.

Air Canada banks on its thriving cargo business to compensate while the passenger travel demand remains below pre-pandemic levels. In Q2 2021, cargo sales increased 33% versus Q2 2020 and twice more compared to 2019. Cargo revenue jumped 53% year over year to $489 million.

Because of the hyper-growth in e-commerce, management expects compound annual growth rates of 4-6%. Likewise, the superb showing of the cargo division prompted a change in the business model. The plan is to operate a pure freighter fleet in tandem with passenger services. In Q4 2021, Air Canada will add two 767 freighters in addition to the all-cargo fleet of eight aircraft.

Extra patience

Air Canada's rebound will come, but investors need to be extra patient. Pent-up demand remains its powerful tailwind, and the implementation of IATA's 14 measures will help revive air travel.

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