



Did You Buy Air Canada (TSX:AC) Stock at \$26?

Description

Air Canada ([TSX:AC](#)) stock made the headlines every day during the pandemic when it was burning millions of dollars daily. Surprisingly, the stock surged while its losses widened as investors flocked in their money, betting on the recovery after the vaccine announcement. The stock surged more than 90% between November 2020 and March 2021. But now, when the recovery has actually begun, the stock has been hovering in the \$23-\$25 range, testing investors' patience.

Are you an investor who bought Air Canada stock for \$25-\$26? Seeing your stock portfolio in 10-13% red is making you anxious over the long-awaited recovery. Are you doubting your investment in airlines and thinking of booking a loss? Wait till you read this.

What's behind Air Canada's flat growth

In 2020, Air Canada's stock fell 18% between June and October. This year again, it dipped 19% between June and October 2021. The cause of this decline is business uncertainty. Predicting and adjusting to the pandemic waves has been a challenge for airlines worldwide. Even now, the delays in vaccination and the hiccups in restarting international travel have left investors wondering about the impact of recovery in air travel, keeping investors cautious.

Moreover, the terms of the \$5.9 billion bailout are not welcoming to shareholders. The bailout favoured employees, customers, and the economy more than shareholders. As per the bailout terms, AC can not cut jobs. Moreover, it has to restart the routes it discontinued and refund ticket money. All of these conditions will increase costs and can backfire if there is another wave of the pandemic. To add to this, the government gets equity warrants that give it a 10% stake in the airline and [dilutes](#) equity shareholders' interest.

Moreover, there is [news](#) about a fresh lockdown in China as the number of cases rises again. All this adds up to shareholders' discomfort. Investors need positive news to revive their confidence in Canada's biggest airline.

Where is the growth?

There are many factors that can act as confidence boosters.

- Air Canada's upcoming quarterly earnings on November 2.
- The slowdown in cash burn.
- The management's update on the use of bailout money.
- The pent-up demand from the summer holiday.

Air Canada has been burning \$15-\$17 million cash daily since the pandemic. If the airline posts a slowdown in cash burn, that is a plus. The cash usage will determine whether the airline can sustain the pandemic without consuming the entire bailout money. The next positive news will be the pent-up demand for leisure travel, especially during the summer season.

Air Canada is a stock that will give you returns in an upcycle and remain flat or fall for the rest of the time. I expect the stock to grow between November 2021 and June 2022 if the above factors play in. The stock could rally to \$32 or even reach \$40, depending on the recovery. But the opposite could also be true. If there is another COVID outbreak, as in China, Air Canada stock could take a beating and even fall below \$20. But that is a risk with every recovery stock.

What should you do with Air Canada stock?

Air Canada is a stock that calls for [active investing](#). If you bought the stock at \$26, you are currently at a loss. Have patience and wait till June. If the stock rallies to \$30, sell some shares and book your profit. But if the stock falls below \$20, sell the shares as it will be even more difficult for AC to handle another outbreak. You can recoup Air Canada's losses from another growth stock.

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