



Is Now the Time to Be Cautious With Air Canada Stock?

Description

Canada's leading airline **Air Canada** ([TSX:AC](#)) has been on a rather negative trajectory of late. Indeed, Air Canada stock has declined precipitously from its peak in Q1. Since then, shares of this company have [lost nearly 30%](#) as investors re-assess the reopening thesis with this stock.

I mean, Air Canada has been doing a lot of things right. The company has reshaped its fleet, streamlined its cost structure, raised considerable amounts of liquidity, and successfully pursued new strategic initiatives — i.e. cargo. It carried all of these out while maintaining stringent standards of health and safety necessary for flying. This job of navigating the impacts of COVID-19 on global air travel is being regarded as a commendable one.

However, higher fuel prices and the slower reopening of international borders continue to weigh on this stock.

Here's why I think Air Canada stock could be at a great entry point for long-term investors right now — that is, considering the risks.

Analysts focused on the risks

Indeed, Air Canada stock is one investors ought to factor in a considerable amount of risk right now. An **RBC** Dominion Securities analyst believes that Air Canada is at risk of a “lower-for-longer” recovery due to the Delta variant. This sort of sentiment appears to be reflected in the price action for Air Canada stock of late.

Accordingly, analysts are increasingly seeing only modest near-term upside, as “pent-up demand” seems to have peaked in both Canada and the United States. Due to this, Air Canada stock has been downgraded by some analysts with this view.

It's important to remember as well that Air Canada stock is up significantly off its pandemic lows. Investors who've bought near the bottom and held have no reason to sell. That said, there is reason to believe this recovery could be more arduous, with rising fuel prices eating into the profitability airlines

otherwise would see from this recovery.

Positives for Air Canada stock

That's not to say there's no reason to own Air Canada stock right now. Far from it.

Economic activity is improving, and borders are reopening. Next year could see significant pent-up demand materialize as expected. Should a bullish scenario take hold, Air Canada stock could take off.

Indeed, Air Canada's financials point to a strong recovery thus far. Canada's largest airline posted [revenue growth](#) of 59% year over year this past quarter. Cash burn also fell by 43%. Accordingly, this is a stock moving in the right direction.

That said, the speed of this recovery is what investors are watching. Right now, the market isn't sold. However, investors looking for a higher-risk, higher-reward growth play in the coming years may want to consider Air Canada stock. That is, if one believes we're about to be headed to pre-pandemic travel levels and beyond.

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