



Air Canada (TSX:AC) Stock Predictions for 2025

Description

The pandemic clouded the future of global airlines, which is a capital-intensive industry with thin profit margins. The renowned value investor [Warren Buffett](#) exited airline stocks in 2020 as he saw a multi-year loss for all airlines. But **Air Canada's** ([TSX:AC](#)) latest earnings raise hopes that losses could end in 2025 if things continue to improve. I analyzed fundamental and economic factors and predicted how 2025 could be for Air Canada.

When making any prediction, it is important to state the possible outcome in different scenarios. Here I have taken two scenarios — continued recovery and another lockdown — and how they will play out in the next three years.

Scenario 1: Air Canada continues on the recovery path

The Canadian government has opened international borders just last quarter, and Air Canada saw the return of leisure travellers. The real impact of pent-up demand will be visible in the fourth quarter as fully vaccinated foreign nationals coming to Canada need no quarantine.

Just a month of full re-opening (September 7) pushed Air Canada's passenger revenue up 223% year over year in the third quarter. Air Canada didn't expect a rebound before the end of 2022. This faster-than-expected rebound has made the airline bosses optimistic that the overall demand, including business travel, would rebound in the third quarter of 2022.

The contribution of business travel was little in the third quarter's 223% growth as corporate Canada still prefers remote working. I am emphasizing [business travel](#) because it accounts for just 12% of passengers but contributes 60% to 70% towards the industry sales. Although these statistics are before the pandemic, they show the impact the return of business travel can bring to airlines.

If things proceed the way they are till mid-2022, AC might probably forgo bailout money of \$4.4 billion. If that happens, shareholders will rejoice and send the stock to a new post-pandemic high. The revenue growth rate from pent-up demand will normalize by 2023.

Air Canada already halved its operating loss to \$364 million in the third quarter. The downsizing and cost-cutting it underwent during the pandemic have started to bear fruit. Now it is restructuring debt to reduce its interest burden and, therefore, its net loss. If the airline manages to sustain the passenger traffic seen during the pent-up demand, it could return to profits before 2025.

Scenario 2: Air Canada faces another lockdown

The above picture looks rosy, but Air Canada is not building castles in thin air. It is holding on to the bailout money as safekeeping as the pandemic scene is still unpredictable. There is [news](#) about new mutation and a fresh set of lockdowns in China. The scenario is grey whether this new mutation will cause another global pandemic or be contained in China.

If I take a pessimistic view of another lockdown probably next year, Air Canada would have sufficient liquidity (\$14.4 billion) to sustain another year of lockdown. This time, the airline will most likely use the bailout money that will give the government up to a 10% stake. That won't fetch well with shareholders, and the stock could drop to \$18 or \$15.

In such a scenario, the year 2025 might determine whether Air Canada can sustain or file for bankruptcy as it did during the 2003 SARS pandemic.

Final verdict

The probability of both scenarios is equal to the toss of a coin. If you are holding AC stock, keep holding on as I believe it can go as high as \$40 as scenario one plays out. But do not buy the stock at the current price of \$26. The right price to buy AC stock is \$24 or \$23. If scenario two plays out, the stock could fall below \$20. If it breaches the \$21 support, sell the stock.

I would suggest holding the stock till June 2022. At that time, I will revisit the macro and company factors and recommend accordingly. Until then, stay abreast of pandemic news and stay safe.

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