Why Did Air Canada (TSX:AC) Stock Fall 7.9%?

Description

Air Canada (TSX:AC) stock saw inverted V price momentum in November. First, the stock surged 18% in the anticipation of strong earnings. That was justified, as the airline posted positive net cash flow after six quarters of cash burn. Such a rebound was earlier than expected. But then the stock fell 7.9%, because the airline CEO doesn't know French. Read ahead to know the full story.

Air Canada stock falls 7.9%: Here's why

On November 3, Air Canada CEO Michael Rousseau gave a speech almost entirely in English to the Montreal Chamber of Commerce. After the speech, he told reporters that he did not need to learn French to get by in Montreal. This statement set off an uproar with protestors demanding the departure of the CEO, according to media reports.

To ease the public relations uproar, the CEO apologized and said that he is learning French. The statement caused Air Canada stock to fall 7.9%. This became a big issue, because Air Canada falls under the Official Languages Act, which states the airline is "proud to offer services in both official languages and demonstrate true leadership among major Canadian companies in promoting bilingualism."

While the CEO learns French, there is another tension brewing on the other side of the world. A fifth wave of the pandemic is fast spreading, making the unvaccinated population vulnerable. Many European countries are imposing partial lockdowns and accelerating vaccination drives even for children.

In my previous article on 2025 prediction for Air Canada, I analyzed a scenario where the pandemic raises its ugly head again. Air Canada has secured $14.4 billion in liquidity after adding the bailout money. This liquidity can help the airline sustain another year of lockdown, but at the cost of giving a 10% stake to the government. This won't fare well with shareholders, and the stock could drop to $18 or $15. So far, the fifth wave of the pandemic has not reached the level of another border shutdown.

What should you do?

The recent 7.9% dip has put investors at a crossroads; they have to decide whether to buy the airline stock or not. In my prediction article, I'd stated that the right price to buy AC stock is $24 or $23, and the CEO's statement has pulled the stock closer to $24. You can buy the stock at this point, but note that it comes with risk.

The current scenario will die down once Mr. Rousseau makes a speech in French. That could probably send the stock on the recovery rally again, enabling you to profit from AC. My most bullish expectation is a rally to $40, representing 65% upside. But this reward comes with a risk.

What if the fifth wave closes international borders once again? In this scenario, the stock could fall below $20. My most bearish expectation is $15 — the level is last seen during the pandemic. If this scenario materializes and AC stock breaches the $21 support, sell the stock. This represents a 13% downside.

Any alternatives to Air Canada

Another alternative is to hedge your risk by investing in a stock that will benefit from the pandemic, like **Kinaxis** (trading close to $225/share). For a slightly cheaper alternative, you can consider **Enghouse Systems** (trading close to $56/share). Kinaxis offers supply chain management solutions and benefited from the proliferation of e-commerce volumes during the pandemic. Enghouse offers telecom and video conferencing solutions to people working and studying from home.

When Air Canada stock falls because of the pandemic wave, the above tech stocks could surge, thereby balancing the risk and reward of your portfolio.

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Date
2025/08/18
Date Created
2021/11/19
Author
pujatayal