Air Canada (TSX:AC) Stock Could Double by Next Black Friday

Description

Air Canada (TSX:AC) stock continues to trade on a mixed note in Q4 after ending a previous couple of quarters in negative territory. While the Canadian airline's stock staged a massive recovery by rising 45% in the fourth quarter of 2020, even the expectations of surging demand have seemingly failed to drive its stock higher ahead of this holiday season. It's currently trading at $23.24 per share with just 2.1% year-to-date advances, underperforming the broader market by a wide margin. In this article, I'll highlight some important factors that could help Air Canada stock rally and potentially double by the next Black Friday.

What could be hurting Air Canada stock?

After the global pandemic took a big toll on the airline industry last year, investors' expectations that Air Canada would see a big turnaround in 2021 drove its stock higher in the fourth quarter of 2020. However, this rally paused again this year, as extended air travel restrictions and strict guidelines for travelers due to various new COVID-19 variants delayed the recovery.

Air Canada managed to receive a big financial support package from the government in April 2021. However, investors feared that this increase in the airline company's liabilities would hurt its long-term growth prospects. These negative factors could mainly be blamed for taking a big toll on investors' sentiments and keeping Air Canada stock under pressure this year so far.

Could it double by the next Black Friday?

Last week, Air Canada announced its withdrawal from further Government of Canada financial support due to its improved liquidity position amid the ongoing recovery. After the airline firm got access to up to $5.375 billion in liquidity in April this year, a big part of this government-provided liquidity remained unused.

In the last few months, all major airline companies across North America have highlighted a sharp rise in air travel demand along with a jump in advance bookings. During its Q3 earnings conference call, Air

Canada's chief commercial officer Lucie Guillemette stated, "we are witnessing a strong rebound in VFR and leisure traffic remains strong, specifically within North America across the Atlantic and to Sun destination." Here VFR means the demand generated by passengers visiting friends and relatives.

As the pandemic-related worries are subsiding amid the rising vaccination rate across the world, I expect VFR and leisure traffic to improve further in the upcoming holiday season. While I don't expect this demand to lead to a big overnight recovery in Air Canada's financials, it could help the Canadian airline report much better-than-expected fourth-quarter results.

Moving into the year 2022, the airline industry may also see a big jump in business travel demand, which could further accelerate Air Canada's financial recovery. These positive expectations could soon start a long-term rally in Air Canada stock and help it yield solid positive returns from current levels.

We must also note that despite improving demand and financial recovery prospects, Air Canada stock is still trading far below its pre-pandemic levels. The stock ended 2019 at $48.51 per share, which is more than double its current market price. That's another reason why I find its shares undervalued at the moment.

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