



Air Canada (TSX:AC) Stock Hits 10-Month Lows: Should You Buy?

Description

Air Canada ([TSX:AC](#)) investors cheered its Q3 2021 earnings early this month. The flag carrier reported handsome revenue growth and turned net cash positive during the quarter. However, the joy did not last long because of the same old problems.

The new COVID variant, found in South Africa, has been claimed a cause of concern by the WHO. The damage was evident. On November 26, AC stock fell 9% and closed at \$21.2, its 10-month low. The stock has lost nearly all its gains for the year, driven by the recent fall.

What's next for Air Canada?

The drop was much on the expected lines, and almost all major airline stocks exhibited a similar reaction. Many developed countries started to put restrictions back on, mainly on travelers from the southern African countries, to stop the spread of the new variant.

Some experts [expect](#) that the new variant, known as Omicron, has already entered Canada. This might prompt Canadian authorities to bring in more travel restrictions in the coming days. Omicron is more perilous than Delta mainly because of its higher transmissibility and resistance to vaccines.

This is disheartening for the sector and investors, as things had just started to normalize after the deadly damage of the Delta variant. But interestingly, the magnitude of the potential damage and how that impacts the recovery will only be seen in the next few weeks.

Air Canada during Q3 2021

Air Canada reported handsome revenue growth of 178% in the third quarter of 2021. While the sustainable profits still seem distant, the company effectively managed to stop its cash burn, which was a primary cause of concern for the last six quarters.

Most importantly, the management issued a bullish demand outlook for Q4 2021, indicating a steady

recovery from the pandemic. However, that prospect could hit the wall now considering new potential curbs. This further hints that reopenings won't be easy and smooth as they once seemed. The mutations of the virus could bring in huge amounts of uncertainties and could delay recovery.

Should you buy AC stock?

The magnitude of Friday's fall and related uncertainties indicate that the [bear trend](#) could continue in the short term. Consumer discretionary stocks might feel more pain in the coming weeks amid increased worries. So, [AC stock](#) could continue to trade weak, and bargain hunters may get to catch it around \$18-\$20 levels.

Air Canada stock has had a noteworthy run so far amid the pandemic. The stock hit multi-year lows of \$10 last March amid stringent restrictions. Reopening hopes and a faster-than-expected recovery pushed the stock beyond \$31 levels early this year. Interestingly, AC stock is trading 60% lower currently relative to its pre-pandemic highs.

Although Air Canada may trade weak in the short term, I am optimistic about it for the long term. AC's strong balance sheet and dominating market share will likely help it rise above the challenges in the next few quarters. If your investment horizon is beyond a year, AC stock could reap significant benefits for you in the post-pandemic period.

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