



Air Canada (TSX:AC) Stock Could FALL 50% in 2022: Here's How

Description

Air Canada ([TSX:AC](#)) stock has been on a downward spiral in the second half of 2021. After a brief rally that saw it go as high as \$29 earlier in the year, the stock began selling off. The announcement of COVID-19 vaccines in November of 2020 injected AC stock with a shot of adrenaline that kept it rising for many months. Immediately after the **Pfizer** vaccine was announced, AC stock began rallying. But after a series of earnings releases that showed the company still losing money, its rally began to fizzle out.

Today, there is no telling what's going to happen to Air Canada. Its most recent quarter did see improved revenue and a smaller EBITDA loss than the same quarter in 2020. However, we have seen the rise of the Omicron variant and new lockdowns since then. If COVID-19 is declared officially over then AC stock could rally hard. On the flip side, if another variant necessitates severe lockdowns, the stock could fall up to 50%. Here's why.

New variant outbreak

In March 2020, when the COVID-19 pandemic first made it to North America, almost all of Canada was under lockdown. Travel to foreign countries was severely restricted, and even travel between provinces required a 14-day quarantine. If a new, deadly strain of COVID-19 were to come on the scene, 2020-style measures could come back. Such measures contributed to an 89% decline in AC's revenue in the second quarter of 2020.

How much did investors think Air Canada was worth when this was going on?

At the lowest point, \$12.40. At the start of the year, AC stock was worth more than \$50. When investors thought that the company was under threat due to COVID, they sold en masse, until the stock settled at \$12.40. After that it began a slow ascent that really picked up steam when the Pfizer vaccine was announced in November.

Today, AC stock trades at \$21.92. It's up a lot from its 2020 lows. But keep in mind why it reached those lows in the first place: investors thought the company couldn't make money amid all of the

COVID-19 pandemonium that was going on. If Omicron or some other new variant were to prove deadlier than any other yet seen, it could result in [March 2020-style lockdowns](#). If that were to occur then prices around \$12.40 would be a real possibility. That would represent 46% downside to today's prices.

Bad earnings release

Another factor that would send Air Canada stock tumbling would be a bad earnings release. Air Canada is heavily indebted and has over \$100 million in quarterly interest expenses. Enough net losses will cause interest expenses and other fixed costs to pile up with no positive earnings to offset them. That should theoretically make Air Canada stock less valuable. Air Canada's most recent earnings release was actually not bad, with [\\$153 million in positive cash flow](#). If the company reports another billion-dollar losing quarter, though, investors might run out of patience.

Foolish takeaway

Air Canada has been a volatile ride for investors since 2020 and will probably be a volatile ride for the next year at least. As long as COVID-19 is a going concern then there is potential for more damage to the company. So far, the pandemic has remained stubbornly persistent. So, there could be more losses to come for AC shareholders.

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