Could 2022 Change Air Canada’s (TSX:AC) Course?

Description

If you placed a bet on **Air Canada** (TSX:AC) stock in 2021, thinking that it could benefit from easing travel restrictions amid ongoing vaccination, then you are sitting on a loss. Notably, Air Canada stock lost about 14% of its value on a year-to-date basis, despite delivering an improved financial performance on a year-over-year and sequential basis.

It’s worth noting that the pandemic led to a significant drop in traffic and, in turn, wiped out a considerable portion of Air Canada’s revenues and cash flows. However, Air Canada stock got a solid boost at the beginning of this year from the economic reopening, recovery in domestic travel demand, and vaccine distribution.

Thanks to the favourable operating environment, Air Canada stock recovered sharply and crafted a 52-week high of $31.

However, the newer variants of the coronavirus and higher jet fuel prices weighed on Air Canada stock, eroding all of its gains. Further, equity dilution played spoilsport. Notably, Air Canada is trading near its 52-week low.

Signs of recovery

Despite the challenges related to COVID-19, Air Canada’s third-quarter performance showed massive recovery, strengthening my bullish outlook on its stock.

Compared to the prior-year quarter, Air Canada’s total capacity and traffic jumped 86.8% and 214.5%, respectively, in Q3. However, it still remained well below the pre-COVID levels.

Nevertheless, Air Canada’s operating revenues nearly tripled to $2.1 billion in Q3. Moreover, its top line also improved on a quarter-over-quarter basis. Air Canada also managed to cut losses significantly. It posted an operating loss of $364 million compared to $785 million in Q3. Meanwhile, it ended Q3 with net cash of $153 million.

Another bright spot is the continued momentum in its cargo business, which surpassed $1 billion in revenues on a year-to-date basis.

What's ahead?

Air Canada is expecting to increase its ASM capacity by about 135% year over year in Q4, which will likely boost to its revenues. Moreover, I expect Air Canada's losses to continue to decline.

I maintain a favourable outlook on Air Canada stock. The massive drop in its price makes it attractive. Notably, Air Canada stock is available at a huge discount of about 62% compared to the pre-pandemic levels. Moreover, the recent drop in its price suggests that negatives are priced in the stock.

The ongoing vaccination, expected improvement in bookings, and revenue diversification provides a strong base for growth in Air Canada stock. Furthermore, improving revenue trends and cost-control measures will likely support its bottom line.

Bottom line

Overall, Air Canada remains well positioned to benefit from the normalization in its operating activities. The improving advance ticket sales and increase in passengers carried will likely drive Air Canada's financials in 2022. Meanwhile, higher e-commerce demand and expansion of cargo capabilities could continue to support growth in its cargo business.

However, the pandemic could delay the recovery in Air Canada stock. Also, Air Canada stock will likely remain highly volatile in the short term. Thus, investors willing to hold Air Canada stock for the long term should accumulate it at current levels.

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