



Where Is Air Canada (TSX:AC) Stock Headed in 2022: \$25 or \$14?

Description

For the first time in 11 months, **Air Canada** ([TSX:AC](#)) stock breached the \$20 support and fell to \$19.47. Although its stint below \$20 was short-lived, it set the tone for a bear momentum until there is clarity on the Omicron variant. This time, even I went bearish on Air Canada. The question is, which direction will Air Canada stock go in 2022?

Air Canada stock: How low can it go?

After Air Canada's stock fell below \$20, the only question in all investors' minds was, how low can the stock go? Fellow Fool contributor Andrew Button also raised the [question](#) of whether AC stock could lose 99% of its value. He looked at AC's 2009 fundamentals (\$24 million net loss on revenue of \$9.7 billion), which is nothing compared to nine months of [2021 fundamentals](#) (\$3.1 billion net loss on \$3.67 billion revenue). In 2009, AC had over five times of its net loss in cash reserves, while today that figure is four times.

But in 2009, AC stock slumped to \$0.85. Even though the airline is in worst shape than in 2009, the stock is trading above \$20. Why? The world of airlines has changed, and so has the world of stocks. Today's investors are willing to take higher risks than investors in 2009. In the previous crisis, people were out of money, whereas in 2020, stimulus checks brought liquidity, which they invested in the stock market.

So, unless the loss is widening with no scope of revenue growth, AC is unlikely to fall to \$0. The stock maintained support at \$14 even at the 2020 pandemic peak, when AC had excess capacity and no scope of revenue growth as all planes were grounded. If the stock falls in 2022, I expect it to bottom out at \$14.

Air Canada stock: How high can it go?

This year, Air Canada stock reached a high of \$31. But the \$5.9 billion bailout and the 10% equity stake to the government reduced the stock's high to \$26.2. There was still hope that AC might not

have to use the bailout money as the pent-up air travel demand made the airline net cash positive. However, this hope was short-lived. The Omicron variant is once again bringing travel restrictions like quarantine, COVID tests, and travel bans to high-infection-rate countries.

So far, things don't look as difficult as the first wave, where border closure was the only solution. The Omicron mutation is infectious and may be immune to the vaccine. But it has not yet proven to be as deadly as COVID-19. However, this doesn't change the fact that it has impacted pent-up travel demand and most likely put AC back to burning cash. AC has \$14.4 billion liquidity that can keep it away from bankruptcy in 2022, but this comes at a price. Hence, I am discounting the stock and expect it to make a high of \$25 next year.

Which direction could the airline stock go in 2022?

The airline industry is the most volatile at the moment. The needle could move in either direction. If the Omicron wave closes the borders again, AC stock could fall to \$14 and stay there for a long time. But if the Omicron wave passes by without significant restrictions, AC stock could reach a \$25 price. The stock won't stay at that level for a long time. So, you have to be quick and sell it then. If you'd bought AC stock at a \$26 price, you would be better off selling it at \$23-\$24.

If you are a value investor who invests for the long term, Air Canada is not your play. You need [active investing](#) to trade in AC. However, AC's range-bound volatility could be a good bargain for those who trade in futures and options.

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