Air Canada (TSX:AC) – a Top Turnaround Stock for 2022

Description

Air Canada (TSX:AC) was one of the Canadian stocks hit hardest by the COVID-19 pandemic. The company's revenue fell 86% for 2020. Because of its high fixed costs, Air Canada was not able to turn profits on its lower revenue. As a result, its stock fell 77% from top to bottom.

In 2021, the stock started to recover. The arrival of vaccines breathed new life into the stock. Later, though, it turned out that the vaccines hadn't caused AC's revenue to surge as was initially hoped. Its first few quarters of 2021 showed some progress, but were still basically money losers. As a result, AC has been in a downtrend in the last few months — though it still isn't approaching 2020 lows.

AC is in the midst of a downtrend, and a new wave of COVID-19 is making matters worse. Omicron has led to lockdowns and travel restrictions much like the initial March 2020 wave did. It's going to be tough for Air Canada to make money in this environment.

Strangely enough, that's actually a basis for optimism on the stock. With this most recent wave of COVID-19, we're seeing much higher vaccination rates. Hospitalization rates are much lower for the vaccinated, which provides hope that when vaccination gets above 90%, we may finally be able to put the pandemic behind us.

COVID-19 pandemic waning

Although we are currently in the midst of a major wave of COVID-19 cases, the pandemic is, broadly speaking, waning. As of December 11, 82% of Canadians had received one dose of the COVID-19 vaccine, and 77% had received both. Additionally, boosters are now available for those who needthem. There has never been more vaccine coverage, and that's showing results in how the Omicronvariant is playing out. While the hospitalization rate is creeping up, it is mostly among unvaccinatedCanadians. The overall fatality rate in this wave is much lower than in previous waves. So, we'reseeing good signs that we may be able to get back to normal — or to a "new normal" — sooner ratherthan later. That, of course, bodes well for airlines, which are being hurt by the current public healthemergency.

Latest quarter saw improved earnings

Another reason why Air Canada could be a top turnaround stock for 2022 is because part the "turnaround" was already seen in the last quarter. For the third quarter, Air Canada delivered:

- $2 billion in revenue, up nearly 200%.
- $67 million in negative EBITDA.
- $384 million operating loss (magnitude of the loss cut in half).
- $640 million net loss (improved by $45 million).
- $153 million in net cash flow.

Taken together, these were all pretty encouraging signs. The positive cash flow, in particular, was the best result for that metric since the COVID-19 pandemic began in March 2020. If the third quarter was any indication, AC may be on the road to recovery. And that could make its stock a great turnaround play for 2022.

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