



Air Canada Stock up 12% in the Last Month: Should You Buy?

Description

Air Canada ([TSX:AC](#)) stock may be one of those businesses that's too big to fail. Let's start with a small historical tour.

The Government of Canada tends to provide Air Canada bailouts

More than a decade ago, because of the global financial crisis, countries around the world were in deep recession. Air Canada was also in trouble then, but it was able to get financial aid of about \$1 billion in 2009 with the help of the federal government.

This time around, because of the pandemic, through a series of debt and equity financing agreements, the Government of Canada made about \$5.375 billion available to Air Canada in April 2021. Although Air Canada only ended up using \$1.4 billion of the funds, it goes to show that the government is ready to step in when things get exceptionally tough for the company. (Air Canada ended up using the money to refund customers' non-refundable tickets.)

The COVID-19 pandemic

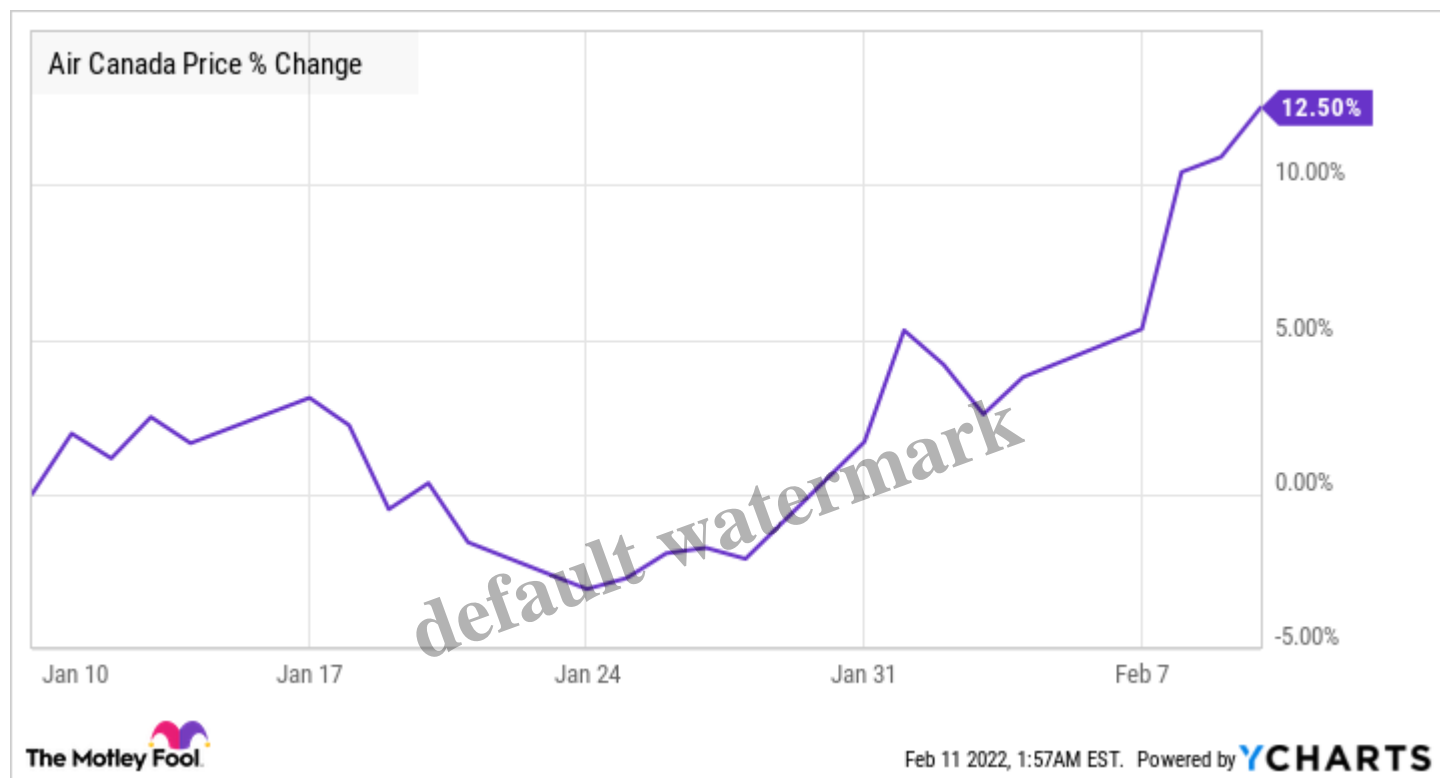
Particularly, this time, it really wasn't the airline's fault. The COVID-19 pandemic seemingly overnight turned off Air Canada's revenue source. Planes were grounded, leaving the company with lost revenues and a damaged balance sheet. Even if planes were allowed to fly through 2020, the demand would not be there anyway, as most people would only fly if necessary during those sensitive times.

From Q2 to Q4 of 2020, Air Canada's revenue was more than 80% lower versus in 2019. The airline's revenue began rebounding in Q2 2021. By Q3 2021, its revenue for the quarter was \$2.1 billion, which was about 38% of the 2019 levels. Q3 also turned a gross profit of \$247 million, which is much better than Q2's gross loss of -\$436 million.

The Q4 2021 results should be even better than in Q3 2021. Interested investors can mark their calendars on February 18, when Air Canada will reveal its fourth-quarter and full-year 2021 results.

Is Air Canada stock on track for a rebound?

[Air Canada stock](#) is up about 12.5% in the last month. Is it on track for a rebound?



AC data by YCharts

If we take a step back and look at Air Canada stock's longer-term chart, it recently bottomed at about \$20 in December 2021 and has climbed more than 26% from that level. However, the stock is just passing through a 50-day simple moving average (SMA), which is below the 200-day SMA that is flat. The 200-day SMA serves as resistance at about \$28 per share. So, it's too early to say that AC stock is rebounding. At best, it's consolidating.

The consensus 12-month price target is \$29.44 per share, which represents 16% near-term upside potential. Again, it'll need to break through the 50-day and 200-day SMA first.

The Foolish investor takeaway

Although some investors consider Air Canada stock as a [growth stock](#), seeing that it appreciated 26% in about two months, it is, at best, a cyclical stock with growth potential from a normalization of its business from the pandemic. It really remains a speculative stock today, as its stockholders' equity has dwindled from \$4.4 billion at 2019 year-end to Q3 2021's \$145 million.

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