Should You Hold or Sell Air Canada Stock Above $25?

Description

The month of February bought some relief to **Air Canada** (TSX:AC) investors, as a decline in Omicron cases revived air travel demand. The stock surged 11% to $25.4 in the run-up to fourth-quarter earnings. The last time the stock crossed the $25 level was when it released third-quarter earnings in early November 2021. Sadly, the stock couldn't maintain that level and came crashing down in the next 20 days. It fell almost 24%, as investors exited their positions.

Should you buy Air Canada stock above $25?

History could repeat itself. Air Canada stock doesn't have the fundamentals to sustain the $25 price level. So, do not make the mistake of buying it at a $25 price. Even if you want to buy into the air travel recovery, $20-$21 is the highest you should pay for the stock.

Air Canada has bigger challenges that suppress the opportunities. Firstly, it has a huge pile of debt ($15.5 billion) accumulated on its balance sheet over the last two years. The $9.4 billion cash reserve gives the airline a cushion to operate, but the pandemic waves keep straining the cash reserve. Last year was supposed to be a recovery year for AC, but it posted a net loss of $3.6 billion.

The airline showed a glimmer of hope by posting a net positive cash flow in the third quarter on the back of pent-up air travel demand. But Omicron wave put it back to negative cash flow in the fourth quarter. Travel demand is still recovering, as Canada removes several cross-border travel restrictions. But now there is a new problem of rising oil prices. Jet fuel price surged 66% to $83.9, accelerating AC's losses, even when revenue increased.

This situation makes Air Canada a high-risk stock and not a buy at $25 but maybe at $21.

Should you hold Air Canada stock above $25?

If you already own Air Canada stock and are waiting for it to break even at $27-$28, you could continue holding it. The most bullish I am on AC is $32 — the level it reached in March 2021 over the anticipation of a government bailout. The airline did get the bailout in April 2021, but the terms were not what shareholders expected. If AC used the bailout term loans, the government would have up to a 10% equity stake in the airline. This could make the government a major shareholder in AC and significantly dilute other shareholders' interests. Hence, AC stocks fell instead of rising after the bailout.

But the airline gave some good news in the fourth-quarter earnings. In November 2021, it withdrew from the $4 billion bailout loans and repurchased vested equity warrants. The outcome is the government no longer has the right to get an equity stake in the airline, thereby saving shareholders' interest. This reason is enough to hold Air Canada stock, even at $25, as it can now grow to $32 or even higher. But there are many obstacles, like the pandemic wave and the Russia-Ukraine crisis, that could impact AC.

Should you sell Air Canada stock above the $25 price?

Air Canada's risk-to-reward ratio is not quite attractive at $25. It could either rise 28% to $30 or fall 20% to $20. Moreover, AC stock dipped after third-quarter earnings, as investors booked profits. If your risk appetite is low, and you need the invested money in the next 12 months, this is a good time to exit AC. Even if your portfolio has significant exposure to AC, this is a good price to book partial profits.

Foolish takeaway

In summary, AC is not a stock to buy at $25. But whether to hold or sell the stock at this price depends on your risk appetite and your portfolio's exposure to it. If more than 3% of your portfolio is in AC, it is time to cash out some stocks and invest in other stock market sectors. Anticipated increases in interest rates and the global oil supply situation make bank and oil stocks attractive.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. pujatayal

Category

1. Coronavirus
2. Investing

Date
2025/09/09
Date Created
2022/02/21
Author
pujatayal