



## Air Canada Could Recover in 2022

### Description

**Air Canada** ([TSX:AC](#)) stock has been in the gutter for years. It got hit hard by the COVID-19 pandemic, which brought about numerous travel restrictions and flight cancellations. The company lost \$4.6 billion in 2020 due to the decline in travel that these measures brought about.

Airlines have high fixed costs. Between interest expenses, airport fees, and plane maintenance, they have significant bills that come due, even when their planes aren't flying. For this reason, they need to surpass a certain revenue hurdle before they become profitable. Air Canada failed to hit that level in 2020 and again in 2021. So, it lost a lot of money.

It has been a painful thing to witness. Air Canada stock was flying high for years prior to the COVID-19 pandemic. From the very lowest prices in 2009, it rose over 4,000%! But thanks to the pandemic, its stock plummeted in value and still hasn't retaken its pre-COVID highs.

Today, Air Canada may finally be on the verge of turning things around. With revenues rising, and with \$10.4 billion in unrestricted liquidity on the books, the company is in decent financial shape. That doesn't mean that it will return to profit anytime soon. But it does provide hope that the company will survive the current crisis without being existentially threatened.

### Air Canada's own recovery timeline

One clue we can use to gauge the timeline of Air Canada's recovery is its own forecasts. In its Q2 2020 earnings release, Air Canada said it would take [three years to get back to 2019 revenue levels](#). That would put the company back to where it was before the second quarter of 2020. At that level, it would be generating healthy profits.

With that said, AC isn't getting there this year. We have already been through a 2022 quarter in which COVID-19 was still in the picture. So, Q1 will probably turn out to have been a loser. But we are now seeing many countries shift to an "[endemic COVID](#)" model, in which the virus will be treated differently than it is now. If Canada moves to such a model, that may allow for some level of a return to normalcy in the air travel industry. That, in turn, will lead to more revenue for Air Canada. Once quarterly

revenues exceed \$9.5 billion, the company will break even.

## What effect could this have on the stock?

If Air Canada breaks even, then its stock should eventually rise. In early 2020, when the company was solidly profitable, the markets valued it at about \$50. Any level of profitability makes the company more valuable than it is today, at least in theory. However, it's an open question when Air Canada will actually return to 2019 levels of profit. The \$9.5 billion mentioned in the previous section is just the breakeven point, AC needs to make a lot more than that to achieve pre-COVID profit levels. So, while we may see the stock rise in the future, it would be short sighted to think it's just going to rocket right back to \$50 overnight. Most likely, such a stock price will not come until 2023 or later.

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