Air Canada (TSX:AC) Stock: Escalating Russia-Ukraine Conflict Could Mean a Bumpy Ride Ahead

Description

Air Canada (TSX:AC) stock continued to rise for the third consecutive month in February. Despite the broader market weakness amid the ongoing Russia-Ukraine conflict, Air Canada's share prices rose by 4.8% to $23.95 per share last month against a negligible 0.1% gain in the main index on the **Toronto Stock Exchange**. With this, Air Canada stock has now risen by 11.2% in 2022 after ending the previous two years in the red territory.

Before I talk about some factors that could affect its future outlook, let's take a quick look at what has fueled the recent turnaround in Air Canada stock.

Air Canada stock: Key drivers in 2022

Air Canada has been one of the worst-affected stocks by the COVID-driven shutdowns and restrictions on air travel. Its stock ended 2020 with massive 53% losses despite a sharp recovery in the fourth quarter that year.

Air Canada stock continued to recover in the first quarter of 2021, as investors expected the global pandemic-related restrictions to gradually subside and air travel demand to recover sharply. However, investors' expectations started fading after new coronavirus variants — especially the Delta variant — badly affected air travel demand recovery, with many countries across the world imposing fresh restrictions. This came as a big blow to Air Canada investors, making them more cautious. As a result, Air Canada stock ended another year with losses by posting 7.2% losses in 2021.

The recent emergence of the Omicron variant also initially made investors worried again. But travel restrictions continue to ease globally, despite this new variant with visible signs of recovery in business and leisure travel demand. That's one of the reasons why Air Canada stock has steadily risen in the last three months.

Russia-Ukraine conflict could affect Air Canada stock

On February 18, the largest Canadian passenger airline reported its fourth-quarter results. During the quarter, its total revenue rose by 30% sequentially to $2.73 billion, exceeding analysts' estimates of $2.43 billion. While Air Canada continued to burn cash in Q4, its cash-burn rate significantly reduced. It reported an adjusted net loss of $450 million in the December quarter compared to $610 million in the previous quarter. Its latest bottom-line numbers were also better than analysts' expectations of a $505 million loss.

During its Q4 earnings event, Air Canada's management highlighted "robust advance ticket sales" and "unmistakable signs of revival." Undoubtedly, these latest signs of travel demand recovery are great news for Air Canada investors. However, the escalating Russia-Ukraine crisis has the potential to indirectly delay its financial recovery. That's because the recent Russian invasion of Ukraine has taken oil prices to their highest level in over seven years amid supply concerns. If this trend continues, it's likely to inflate Air Canada's fuel costs and trim its profits, making the financial recovery more challenging for the already struggling airline company.

I won't deny that it's nearly impossible to accurately predict the potential impact of the Russia-Ukraine war on Air Canada's business at the moment amid the ongoing uncertainties. However, rising fuel prices and emerging geopolitical tensions still have the potential to delay its financial recovery. That's why Air Canada stock investors can expect a bumpy ride ahead.

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