Warning: Air Canada (TSX:AC) Stock Could Hit $15 Again Before $40!

Description

Air Canada (TSX:AC) stock has fallen from about $25 per share to the $20 range again. It looks like it's a buying opportunity on the dip for a post-pandemic recovery. However, higher jet fuel prices are set to weigh the stock down.

Since 2021, AC stock has oscillated between the $20 to $28 range. In the last few months, that range has narrowed to $20 to $25, which suggests the airline stock is getting some support from the $20 level. Since Q3 2021, Air Canada has witnessed a strong rebound in its revenue, which followed through in Q4 2021 to $2,731 million. However, that was still roughly half of its normalized revenue levels. Moreover, it's unfortunate that even with substantial revenue recovery, Air Canada still operated with losses in the past two quarters.

Although the operating loss was $348 million in Q4 2021, Air Canada showed that it could shrink its losses quickly as revenues return. Compare that to the operating loss of $1,015 million in Q1 2021, for example.

Last month, Air Canada relaunched 34 international routes, including some that have been halted since the onset of the pandemic in March 2020. When the market thought the airline could continue recovering its revenues from loosened global COVID-19 restrictions, higher oil prices hit, catalyzed by Russia invading Ukraine. This triggered related jet fuel prices to shoot up as well.

Rising jet fuel costs: A challenge for Air Canada

According to this Yahoo Finance article, "the price of jet fuel jumped to US$141.70 a barrel as of March 4, an increase of 96.2% compared to the same time last year. The International Air Transport Association (IATA), a lobby group that represents 290 airlines including Air Canada, WestJet, and **Air Transat**, had previously forecast that the airline industry would lose $11.6 billion in 2022 with the price of jet fuel at US$78 a barrel, representing 20% of total costs."

That's a big chunk of total costs! The easiest thing for airlines to do is to pass on the costs to customers, as loosened COVID-19 restrictions around the world have increased air travel demand.

However, it's going to take time for airlines like Air Canada to pass on higher jet fuel costs to their customers. The Yahoo Finance article stated, "Cowen & Co. analyst Helane Becker wrote in a note to clients that there is a three to four-month lag before travellers see the impact of rising fuel costs reflected in airfares." Even then, airlines may not be able to pass on all the costs, as airlines need to carefully balance between raising ticket prices and filling their capacity.

How will customers react to higher ticket prices? Will people's desire to travel still be high, despite higher ticket prices? The market will need to wait and see.

The Foolish investor takeaway

For now, Air Canada stock is hovering at the $20 range support. Long-term investors can probably double their investment over the next five years. However, in the near term, there's increased uncertainty about Air Canada's top and bottom line due to high oil prices. Unless the Russia-Ukraine conflict somehow resolves soon or the Russian oil supply is taken up by other oil suppliers (which will take time), AC stock could revisit $15, which is where it bounced from after consolidating during 2020 before going to $40.

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