



## Air Canada (TSX:AC) Stock: Time to Buy?

### Description

**Air Canada** ([TSX:AC](#)) stock has been surprisingly bullish lately. After hitting a bottom of \$19.59 a few weeks ago, it rallied to \$23.44 — a 19% gain. Although AC has been in a mostly bearish trend this year, its past few weeks have been surprisingly solid. In this article, I will explore some of the reasons why AC stock is rising and ask the question, “Is Air Canada a buy today?”

### Why Air Canada is rising

There are several plausible reasons why Air Canada stock is rising right now.

One has to do with COVID-19. The pandemic absolutely [destroyed Air Canada's finances](#) in 2020 and 2021, resulting in seven consecutive losing quarters. In 2020 alone, AC lost \$4.6 billion. There was little the company could do about this. COVID-19 public safety measures provided an enormous disincentive to travel. Many international routes were cancelled, and domestic demand was muted by 14-day self-isolation orders in most provinces. Air Canada's revenue plummeted 86%.

Today, however, public health measures are being lifted. Some provinces are fully re-opened at this point, while others are gradually lifting measures. This all benefits Air Canada, which makes more money the more willing people are to travel.

Another has to do with earnings. In its most recent quarter, AC's [operating loss was just \\$503 million](#). In 2020, most quarters saw billion-dollar losses. So, AC is slowly starting to turn a new leaf on earnings. If this trend continues, then AC could eventually start to move toward profitability. That would likely drive the stock's price higher, as it would show that the company could eventually return to 2019 levels of profit — in those days, the stock was at about \$50.

### Can it turn a profit?

The big question for Air Canada is whether it actually *can* turn a profit. A bit of revenue growth isn't enough, revenue has to actually exceed expenses. Airlines have enormous fixed costs. Some of these,

such as interest expense, come due, even when planes aren't flying. An airline can't just scale back its operations to crank out a profit.

In Air Canada's case, the company has to beat \$3.32 billion in quarterly revenue to turn a profit. Today, it's at about \$2 billion in quarterly revenue. Sales will need to increase more than 50% for profits to emerge. When will that happen? Well, we know that Air Canada is forecasting a return to 2019 revenue levels by 2023. If that's the case, then we could see profits as soon as next year. My best guess is that they won't be happening this year.

## Foolish takeaway

I started this article with a question:

"Is Air Canada stock a buy?"

The answer ultimately comes down to your timeframe. It does look like Air Canada is positioned to recover as soon as next year, but that doesn't tell you anything about where its stock price will go in the next day, week, or month. If you have a very long time horizon, you could invest profitably in AC stock today. Just don't expect much in the short term.

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