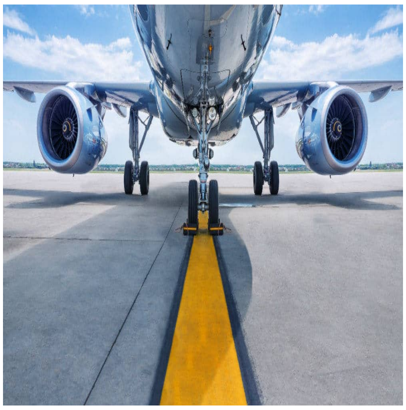

3 Key Factors I'd Watch Before Buying Air Canada Stock Today

Description

Air Canada (TSX:AC) stock has yielded outstanding positive returns in the last decade. Currently, AC stock price is down 17% on a year-to-date basis, but it still has inched up by around 1650% in the last 10 years. Its solid long-term returns are one of the key reasons it continues to be one of the most popular stocks among Canadian investors.

While Air Canada stock has largely been trading on a negative note since the COVID-related travel restrictions started affecting its business in early 2020, long-term investors continue to wait for signs of a reversal to buy it for the long term. In this article, I'll highlight three key factors you may want to pay attention to before buying AC stock.

Air travel demand recovery

The latest trend in air travel demand is the first and most important factor investors may want to focus on before investing in Air Canada stock right now. In its earnings report for the fourth quarter of 2021, the airline company seemed confident about the travel demand recovery. Its vacations bookings sharply rebounded during that quarter, and its management also pointed to "other unmistakable signs of revival." However, in its March quarter report, Air Canada noted how the emergence of the Omicron variant led to a short-term decline in demand. Given that, it had to cancel its flights to certain Caribbean destinations between January 24 to April 30, 2022.

While the Canadian flag carrier has been adjusting its operations to cater to an anticipated demand increase in the post-pandemic world, factors like new COVID variants and continued weakness in business travel demand could keep delaying its financial recovery.

Jet fuel price trends

In the last few months, crude oil prices have seen a massive rally, and in March, the prices reached their highest level since 2008. This price rally has also pushed jet fuel prices to near their record-high levels this year. While gasoline prices have eased a bit since March, they continue to hover well above

US$100 a barrel. That's why I don't expect the jet fuel costs for already struggling airline companies to reduce any time soon.

In Q1 2022, Air Canada's fuel expense increased by $550 million from a year ago due mainly to a 57.2% year-over-year jump in jet fuel prices. At a time when travel demand continues to fluctuate, higher fuel expenses could continue to act like a big challenge for Air Canada's recovery strategy.

Recession risks

High inflationary pressures in the United States and Canada have forced central banks to take aggressive monetary policy measures lately. Now, investors fear that this economic condition could lead to a recession in the near term. In times of recession, people tend to cut their non-essential and discretionary expenses, including air travel. That's why a recession could badly hit the travel demand and escalate the challenges for companies like Air Canada.

Foolish bottom line

As these three factors will directly affect its recovery, investors may want to keep a close eye on them before making a decision to buy Air Canada stock. The largest Canadian passenger airline company still has enough liquidity to implement its recovery strategy. However, the ongoing macro-level challenges might delay its financial recovery further and drive AC stock lower.

CATEGORY

1. Investing
2. Stocks for Beginners

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. jparashar
2. kduncombe

Category

1. Investing
2. Stocks for Beginners

Date
2025/09/06
Date Created
2022/06/23
Author
jparashar