



## Where Will Air Canada Be in 1 Year?

### Description

**Air Canada** ([TSX:AC](#)) is the [largest commercial airline](#) in Canada. The company was named one of the top 20 largest airlines in the world in 2019. Nonetheless, global travel restrictions and lockdowns in 2020 caused Air Canada to incur substantial losses. The stock plummeted to record lows in 2020 but recovered slightly last year.

However, fluctuating oil prices and concerns regarding a potential recession have driven the stock lower once again year to date. Air Canada stock declined 30% over the past three months and is currently trading slightly above its 50-day moving average of \$15.57.

### Will Air Canada's profit margins improve?

Air Canada's passenger ticket sales in March 2022 were 90% higher than the sales in March 2020 — the beginning of the COVID-19 pandemic. This comes despite the Omicron variant-fueled travel restrictions and rising fuel costs. The robust recovery in the first quarter of 2022 (from the 2020 levels) indicates stronger performance over the next quarters.

During the first three months of 2022, Air Canada's available seat miles (ASMs), an operating capacity measurement metric, increased 3.4 times year over year. Passenger revenues increased five times year over year to \$1.91 billion over this period.

However, Air Canada's profit margins remain under pressure. The company's net loss amounted to \$974 million, or \$2.72 per share, in the first quarter of 2022. This compares with a \$1.304 billion net loss (\$3.90 per share) reported in the fiscal first quarter of 2021.

### Will Air Canada's expansion policies yield results?

In order to address the global supply chain issues, Air Canada has been expanding its cargo business. The airline added two **Boeing** freighters to its current portfolio, which will be delivered soon. Air Canada's cargo revenues increased 42% year over year to \$398 million in Q1.

Earlier this week, Air Canada entered a strategic partnership with Emirates to improve travel choices for the former's customers traveling to the Middle East.

Bay Street analysts expect Air Canada stock to hit \$26.95 within the next year, indicating an upside potential of almost 65%. The consensus annual revenue estimate of \$15.89 billion for fiscal 2022 indicates a 148.3% increase year over year.

In addition, the company's annual revenue is expected to improve 18.4% year over year in fiscal 2023. Also, Air Canada's adjusted earnings are forecast to rise over 73% in 2022 and by 150% in 2023.

## Will a recession deter Air Canada's recovery?

Air Canada stock plummeted 8% over the past month, as recession fears stoked a selloff. The rising crude oil prices in the wake of the Russia-Ukraine war impacted Air Canada shares as well.

Nonetheless, the solid pent-up travel demand and end of COVID-related travel restrictions have been working in favour of the company. Substantial customer savings over the last two years and Air Canada's robust liquidity position are expected to drive the sector's performance in the near term.

The recent decline in crude oil prices due to a global economic slowdown is expected to help Air Canada return to profitability. In fact, the airline is one of the few sectors that is not seeing a slump just yet, thanks to solid travel demand despite surging airfares.

## The Foolish takeaway

While the aggressive interest rate hikes are a cause for concern, the airline industry will likely be able to weather the disruption as travelers have been willing to pay elevated fares. As travel demand becomes relatively discretionary, Air Canada is expected to return to profitability within the next year.

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