Air Canada Stock: I'd Still Avoid it Despite its Recent Price Rally

Description

Shares of **Air Canada** (TSX:AC) have seen a sharp price recovery in the third quarter (Q3) so far. AC stock currently trades with 20.3% quarter-to-date gains at $19.29 per share after rallying nearly 11% in August alone. While its recent gains might look attractive, investors may still want to remain cautious, as its ongoing rally might not last very long. Before I explain why, let's take a closer look at Air Canada's stock price movement in 2022 and some key recent updates from the airline industry.

Air Canada stock

Air Canada stock started 2022 on a positive note after losing 56% of its value in 2020 and 2021 combined from $48.51 per share to $21.13 per share. In the first quarter, the stock rose by 14.8% against the TSX Composite benchmark's 3.1% gains. AC stock, however, couldn't maintain this positive trend, despite easing pandemic-related travel restrictions, as worries about slowing global economic growth and rising geopolitical tensions hurt investors' sentiments. As a result, it fell sharply again by about 34% the second quarter.

While Air Canada's stock price has seen a 20.3% recovery in the third quarter so far, it's still trading with about 9% year-to-date losses. Although the signs of soaring air travel demand are a positive indicator for the Canadian flag carrier, reports about staff shortages at major global airports, which led to unprecedented flight delays and cancellations, are keeping investors on their toes.

AC's stock price recovery might not be sustainable

In the second quarter, Air Canada reported total revenue of nearly $4 billion, reflecting a five-fold YoY (year-over-year) gain. During the quarter, the company transported roughly 9.1 million passengers, reflecting an increase of about eight million from the second quarter of 2021. Also, its advanced ticket sales in Q2 2022 were close to 94% of its Q2 2019 level. These factors clearly indicate that the air travel demand has seen a sharp recovery in the last few months. But its financial troubles might be far from over yet.

Air Canada burnt about $481 million in cash in the second quarter this year — massively higher compared to analysts' estimate of $332 million. Its fuel expenses significantly rose due to higher flying during the quarter and a surge in the prices of energy products in the last year. While oil prices have eased a bit in the last two months, there is still not far from their highest level in years, which could continue to keep the Canadian airline company's operating costs high in the coming quarters.

Bottom line

A recent rally in AC stock suggests that investors and analysts have big hopes of financial recovery from the largest Canadian passenger airline company. However, the recovery of its profit margins might be delayed by several factors, including higher fuel costs, flight delays and cancellations, and staff shortages. Moreover, fears about a near-term recession, inflationary pressures, and economic uncertainties are likely to keep Air Canada stock highly volatile in the near term and restrict its rally, I believe.

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