Caution! Air Canada’s Stock Price Recovery Could Run Out of Steam in Q4

Description

Shares of **Air Canada** (TSX:AC) continue to witness a roller-coaster ride lately, as uncertainties about the pace of its financial recovery remain. On the one hand, bulls expect a recent surge in air travel demand to drive a strong recovery in its financials. On the other hand, bears claim that rising inflationary pressures and continued labour shortages at key airports will keep dimming Air Canada’s financial recovery prospects in the near term.

In this article, we’ll analyze some key recent fundamental updates related to the airline industry and discuss whether Air Canada stock could continue to rally in the rest of 2022. But first, let’s take a closer look at AC stock’s recent price movement.

Air Canada stock price movement

Air Canada stock currently trades at $18.14 per share after rising by more than 13% in the third quarter (Q3) so far. While the Canadian flag carrier’s results in the first half of 2022 disappointed, investors still remain hopeful of a sharp recovery in AC stock price amid weakening oil prices and consistently high travel demand. These factors could be the primary reason why its stock continues to witness a sharp recovery in Q3.

Looking at Air Canada stock’s performance and volatility in the last few quarters, however, there’s no guarantee that it will manage to sustain recent gains in the coming quarters. For example, after consistently falling in the previous three quarters, the stock started 2022 on a strong note by rising 15% in Q1. The next quarter, AC stock witnessed a massive selloff again, as rising geopolitical tensions drove a massive rally in oil prices, increasing the cost burden for the already financially struggling airline company.

AC shares plunged by 34% in the second quarter. Despite its 13.1% recovery in the ongoing quarter, Air Canada’s stock price is still down 14.2% on a year-to-date basis.

Could AC stock price recovery continue in Q4?

While it's true that the crude oil prices have eased in the last few months, they continue to trade with more than 70% gains since the end of 2020. Also, the recent dip in oil prices could be temporary, as the energy demand remains strong amid constrained supply, with the Organization of Petroleum Exporting Countries (OPEC) recently announcing its intentions to trim the output. Given this scenario, I don't expect the airline companies, including Air Canada, to get a major relief on the fuel costs side.

In addition, ongoing labour issues could continue to make the path to financial recovery more arduous for Air Canada. Earlier this week, at an investor conference, Air Canada said that it expects "flight and baggage delays to subside through the rest of this year and next as staffing levels improve," *Reuters* reported. However, the reality right now is that labour issues continue to cause baggage crises and delays in flight schedules in major airports, and airline companies might have to compensate passengers facing such issues.

The news report also cited that Air Canada's chief financial officer Amos Kazzaz claimed that business travel is expected to improve after the Labour Day holiday. However, the ground reality seems different as most businesses are forced to cut unnecessary costs to deal with high inflationary pressures. Given that, I don't expect a big surge in business travel in the near term.

Given all these negative indications, I expect Air Canada stock's ongoing gradual price recovery to run out of steam in the coming months. That's why investors may want to remain cautious.

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