



How Long Do We Have to Wait for Air Canada (TSX:AC) Stock to Recover?

Description

Many TSX stocks have breached their pre-pandemic highs long back. However, **Air Canada** ([TSX:AC](#)) stock is still trading 60% lower than its pre-pandemic highs of \$52. Investors have waited for years for the flag carrier's recovery, but AC stock has only disappointed. Its quarterly earnings released this week brought some cheer to the street. However, the stock soon went back to its customary range.

AC stock's rally faded soon, despite a strong Q3 show

Aside from the stock performance, Air Canada's numbers for the third quarter (Q3) of 2022 highlighted a noteworthy financial recovery. Thanks to the pent-up demand, its revenues grew 150% year over year to \$5.2 billion. Its net loss also narrowed to \$508 million from \$640 million a year ago.

What's notable here is that Air Canada posted operating profit in the last quarter — its first in the last 10 quarters since the pandemic started affecting it. The recent passenger trend underlined that air traffic is gradually catching up to its 2019 levels.

Besides strong Q3 numbers, AC stock also rallied on its upbeat guidance for Q4 2022. The management intends to increase its ASM (available seat miles) capacity by 60% compared to Q4 2021, indicating higher potential demand. ASM capacity is a popular measure in the airline industry that measures the carrying capacity that generates revenues.

Air Canada's long road to recovery

Air Canada has not seen a profit since Q1 2020, because of the pandemic. Its debt burden piled up to keep it running when air travel was restricted. However, Air Canada's stellar revenue growth in the last few quarters, and now the operating profit, certainly indicates its path to sustained profitability.

The road to profitability will not be easy and without hurdles, though. Air Canada spent \$1.6 billion on aircraft fuel expenses during the third quarter of 2022. That was a massive 240% increase compared to last year. So, even if Air Canada will be carrying a higher number of flyers in the fourth quarter, its

margins will likely be squeezed due to higher [jet fuel prices](#).

Moreover, a potential recession could be a huge setback for Air Canada. A severe, longer recession dents consumer discretionary spending, ultimately hampering airlines' top lines. Rapid interest rate hikes from the Fed and record-high inflation could result in an economic downturn.

As a result, we saw [AC stock's](#) rally waning, even when Q3 numbers depicted an ongoing recovery. So far this year, AC stock has lost 13%, while TSX stocks have lost 10%.

Should you buy AC stock?

A rally toward its pre-pandemic high is indeed a steep target for AC stock. Plus, a challenging macro environment could bring serious snags for its recovery. However, a downside from its current levels looks limited, especially when profitability seems in sight. So, it makes sense to buy AC stock, probably in a couple of tranches, and wait for its sustained profitability.

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Date

2025/09/08

Date Created

2022/11/05

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