



Where Is Air Canada Stock Headed in 2023?

Description

After two years of massive underperformance, the aviation sector appears to be turning the corner. Indeed, the pandemic hit airlines like **Air Canada** ([TSX:AC](#)) hard, and with this sector being among the hardest hit, plenty of stock price volatility has materialized. That said, with demand stabilizing in this sector, we've seen a nice surge in valuation in recent months.

Now, the question is where Air Canada stock and its peers' stock prices are headed from here? This sector continues to benefit from pent-up demand from the pandemic. But with consumer debt levels hovering around all-time highs and the geopolitical landscape remaining difficult to assess, it may be a rocky year from here.

With that said, let's dive into Air Canada's outlook for 2023.

Air Canada expands its joint venture with United Airlines

Back in 2022, Air Canada and United Airlines, two members of Star Alliance, will be further expanding their venture and partnership. This made travelling between the U.S. and Canada more hassle free and seamless.

There were increased flights between two nations and harmonized schedule. This venture further strengthened the post-pandemic recovery of the airline and helped in clocking in more revenue. It has also activated a code-sharing partnership with Emirates that will help it to increase its flight option choices for passengers.

Passenger metrics saw a decent improvement in 2022, which analysts believe will continue in 2023 as demand for leisure travel will be sustained. While it is true that 2023 is not likely to be entirely free of challenges, sustained demand will help to keep the business's profitability and fundamentals afloat.

Solid quarterly earnings likely to continue

Air Canada's third-quarter recent financial reports highlight continued strength from one of North America's largest airlines. Recent reports have shown strong operating revenue [growth](#) driven by solid operating margins and shrinking net losses. As Air Canada expands its network to its pre-pandemic form, the company should continue to grow its market share and see stable growth in the coming quarters.

Additionally, lower jet fuel costs and a reduction in other commodity prices have brought about some significant cost savings for the airline. If these metrics continue along their current trajectory, many expect some strong earnings reports to follow in 2023.

Bottom line

I think the jury's still out with respect to how Air Canada stock will perform in 2023. Indeed, the airline's recent quarterly performance has been solid. However, some of the macro headwinds, which have led to underperformance in recent years remain.

I think the next two quarters (at least) are likely to remain bright for Air Canada. Of course, any sort of recessionary shock could put this stock in the doldrums of the market, quickly. Thus, Air Canada stock looks like a higher-risk bet right now than it has been in some time, in my view.

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