



## Is Air Canada Stock Ready to Take Off?

### Description

**Air Canada** ([TSX:AC](#))(TSX:AC.B) had been beaten up badly during the great recession, when shares tanked up to 95%. In the near term, the stock has started to find its footing, and with the very impressive quarterly report released this week, we may find Air Canada soaring to new 52-week highs.

### Fantastic quarter for Air Canada could be the start of a sustained rally

Air Canada saw profit soaring more than 75%, as the company flew more passengers in domestic and international routes. Low fuel prices were the reason for the surge in passengers in the last quarter, as traffic jumped 19% in Q3 2016 compared with Q3 2015.

Net income increased to \$768 million in the quarter with revenue rising to \$4.45 billion, crushing analyst expectations of \$4.3 billion.

There's no question that the quarter was a huge success, and the stock rallied by 7.45% Monday. I believe that these impressive numbers could be a catalyst for a sustained rally that could continue into 2017.

### The stock is dirt cheap right now

It's no mystery that Air Canada is one of the cheapest stocks out there. The stock currently trades at an absurdly cheap 6.2 price-to-earnings multiple with a price-to-sales of 0.2 and a price-to-cash flow of just 1.5. The forward price-to-earnings multiple is even cheaper at just 3.5.

You may be worried that Air Canada is a value trap, and it very well could be, but I believe that as long as fuel prices remain low, we will see increased air traffic, as customers travel more due to reduced prices.

### Positive catalysts will continue to drive the stock higher

The younger generation has also shown that they value experiences more than they do materialistic goods, and there's no better experience than to travel the world. This trend is expected to continue for

the long term, and Air Canada is a terrific way to play this phenomenon.

When combined with the fact that fuel prices are ridiculously low, we can expect traffic to remain high through the rest of 2016 and going into 2017.

Normally, I don't recommend stocks after they've enjoyed a nice rally, but in the case of Air Canada, the stock could double and still be cheap, according to traditional valuation metrics. We could be at the beginning of a cyclical movement upwards for airline stocks in general, and, despite the competition Air Canada faces, investors in the stock will most likely profit by holding on and letting the company take off.

If you're a contrarian investor, then Air Canada may be your ticket to high profits, but there are risks, as with any investment. If another global market meltdown happens, you can bet that Air Canada and any other airline will get hit hard—airlines are one of the most cyclical industries out there.

If you buy Air Canada, hold it and make sure you take profits off the table; those who hold cyclical stocks like this will get hurt badly when the tides change suddenly. But since the stock is near its bottom, there's a fair margin of safety at current levels.

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1. Investing

## **TICKERS GLOBAL**

1. TSX:AC (Air Canada)

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1. Investing

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