



Time to Buy the Dip at Air Canada?

Description

Air Canada ([TSX:AC](#))(TSX:AC.B) has been on an absolute tear lately as the stock more than doubled over the past year and is up about 60% from my [original recommendation](#) several months ago. More recently, shares of Air Canada have pulled back slightly and are down over 8% from its 52-week high. Is this weakness a buying opportunity for investors looking to ride the cyclical upswing?

The U.S. economy is likely to improve over the next few years under a business-friendly agenda, which President Trump has promised to implement. The Canadian economy is likely to benefit from our neighbour's strengthening economy and from commodity prices which may be set for a rebound. Passenger sales have been heading upwards, and I believe there's still a lot more upside in the airlines at this point.

Although airline stocks have soared, I do not believe they've reached max altitude just yet. Air Canada is likely to take a breather after its massive rally before another surge, which is probably going to be triggered by another amazing earnings release.

Shares of Air Canada are still dirt cheap with a 7.3 price-to-earnings multiple. Although the company's valuation seems too good to be true, I think there's real value to be had, but there's a catch.

The airline stocks are extremely cyclical names. If you take a look back at the historical stock chart of Air Canada, you'll see that the company has only just started to recover from its plunge in the Financial Crisis, when shares lost over 95% of their value. Will the same magnitude of losses happen in the next recession? Not necessarily. Air Canada was in a very bad spot, and since then, the company has made meaningful changes, but during the next recession, investors should still expect shares to lose over half of their value with a full recovery time of five years or more with no dividend being paid.

An investment in Air Canada is not for the faint of heart, but if you're keen on profiting from the cyclical upswing, then make sure you take profits sometime in the medium term because odds are, you'll probably give up all your gains once the next recession arrives.

Air Canada is set to deliver its Q2 2017 results next month, and volatility is likely to spike. If you're set to take Air Canada for a ride, then you might want to consider buying a portion of your position now

and after the results are released in case they fail to live up to the Street's expectations.

However, be warned: Air Canada is not a buy-and-hold-forever stock. It's a medium-term trade at best. If that's all right with you, then you should probably add Air Canada to your watch list today.

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