



Why Air Canada Has Only Started Taking Off

Description

Air Canada ([TSX:AC](#))(TSX:AC.B) is a company that many investors have looked to as a source of pain for a long period of time. The airline's stock price has been on a roller-coaster ride (a massive roller coaster at that) since 2007; in fact, only this year has Air Canada's share price climbed back to where it was 10 years ago (hovering around the \$20 level), after touching down below \$1 on numerous occasions following the most recent Global Financial Crisis.

With the crisis out of the way and economic growth improving in Canada and abroad, spurred by lower fuel costs and improved industry-recognized fundamentals (revenue per average seat mile), Air Canada has seen its top- and bottom-line numbers improve substantially, making Air Canada a seemingly seductive play amid a range of underperforming Canadian stocks.

With Air Canada's most recent impressive earnings beat somewhat unexpected, shares jumped more than 10% higher in intra-day trading on Tuesday only to retreat slightly today. With Air Canada's share price now trading approximately 50% higher year to date, some investors have perhaps become worried that the valuation of Canada's largest airline has begun to get ahead of itself. I argue, however, that this is simply not the case, and Air Canada likely has lots of room to run higher based on the company's impressive fundamentals.

What remains astonishing to many long-term, fundamentals-focused investors such as myself is how cheap Air Canada remains, despite the company's aforementioned tailwinds. Trading at a price-to-earnings multiple of only 6.9 compared to Canadian peer **WestJet Airlines Ltd.** (TSX:WJA) at 11.2 and American peers **United Continental Holdings Ltd.** (NYSE:UAL), **Delta Air Lines, Inc.** ([NYSE:DAL](#)), **Southwest Airlines Co.** ([NYSE:LUV](#)), and **American Airlines Group** (NYSE:AAL) at respective multiples of 8.6, 9.9, 16.9, 12.4, Air Canada appears miserably cheap and extremely undervalued.

Heck, even Warren Buffett, a man who claimed he would never “take off” with another airline investment, has pulled the trigger on a number of U.S.-based airlines because they were simply too cheap to ignore. Not known for trading, it is unlikely that Mr. Buffett will exit his positions in a brash way over the coming quarters; the flight may have only just taken off for the airline industry in general.

Bottom line

Air Canada remains undervalued with a number of catalysts that have no indication of ceasing in the medium term. Investors serious about seeking long-term value should consider adding an Air Canada position on any weakness moving forward.

Stay Foolish, my friends.

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