



Air Canada Soars ~11% in a Day: Can it Fly Even Higher?

Description

Air Canada ([TSX:AC](#))(TSX:AC.B) shares soared a whopping 10.7% on Wednesday following a sudden surge of analyst price target upgrades. Despite surging over 170% over the past year, there are many reasons why more upside could be in the cards.

Many investors are probably worried about a potential correction for Air Canada. After all, if you take a look at the long-term chart for Air Canada, shares look to be surging exponentially. Could a correction be overdue? Possibly, but if you're a medium-term investor looking to capitalize on the cyclical upswing, it's probably not too late, since shares of Air Canada still trade at a mere 8.51 price-to-earnings multiple.

Air Canada is in the process of launching its own loyalty program in addition to investing in initiatives to challenge its lower-cost competitors, both of which could send shares of Air Canada much higher over the medium term.

Air Canada's regional Rogue network airline is capable of operating at a lower cost (~30% lower) than most of the planes currently in its fleet. Going forward, the company is looking to expand routes to win the business of value-conscious travelers. Many low-cost carriers will go online next year, and it appears that Air Canada is preparing for the incoming storm to capture as much of the ultra-low-cost carrier pie as possible.

Valuation

Shares of Air Canada are substantially cheaper than U.S. peers. The management team is pursuing initiatives to make the most out of the cyclical upswing, which will probably last another few years. At Air Canada's investor day, the management team stated that it plans to increase margins between 17% and 20% and free cash flow up to \$3 billion by the conclusion of 2020. If Air Canada is able to deliver or exceed these goals, shareholders of Air Canada could have a multi-bagger on their hands.

Shares currently trade at a 8.51 price-to-earnings multiple, a 5.3 price-to-book multiple, a 0.4 price-to-sales multiple, and a 2.5 price-to-cash flow multiple. The stock is definitely cheap, and there are many industry-wide tailwinds that will exacerbate the effects of the company's growth initiatives.

Bottom line

Although it looks like the stock has already taken off, I believe there's still time to board before it reached cruising altitude. If you're looking for a medium-term bet, Air Canada is a solid choice, but make sure you don't get too attached, because cyclical stocks like airlines will get crushed in the next economic downturn, which could be lurking around the corner. Many investors may think Air Canada is a free ride right now, but make sure you realize that Air Canada isn't without risks.

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