See Why Air Canada (TSX:AC) Stock Won't Make You Rich Even at a +50% Discount

Description

Air Canada (TSX:AC)(TSX:AC.B) was flying high earlier in the month, with a share price that looked set to hit $30. However, Air Canada stock is now changing hands for less than $22 and still falling.

Let's go through a few multiples and figure out whether stock in Canada's number one passenger carrier is worth buying or selling today.

Air Canada seems to be losing cabin pressure

Discounted by +50% compared to its future cash flow value, Air Canada seems to be following Canadian aviation stocks back down to the ground.

A P/E of 3.1 times earnings indicates undervaluation, explaining why this stock is getting talked up at the moment, and a PEG of 0.3 times growth also signals good value on the face of it. However, given the degree by which Air Canada appears to be undervalued today, perhaps these ratios are indicative of a cheap but also stagnating stock. With a so-so 11.4% expected annual growth in earnings, it looks as though this aviation stock has had its wings clipped.

Moving on to another multiple, we can see that Air Canada's P/B of 1.8 times is slightly high for the industry, which means that better value could be found among its competitors.

A further word of warning: Air Canada's level of debt (203.7%) compared to net worth is alarmingly high. While the good news is that Air Canada is well able to service this debt, investors fearing a downturn certainly have something to think about in terms of liability.

Is Canada's flag carrier preparing to land?

Growth investors won't find much to interest them in this stock, given the so-so earnings-growth estimate and a low 36-month beta of 1.03 indicating extremely minimal volatility.

Those looking to buy low and sell high are likely to be disappointed, too, since a glance at Air Canada's share price over the last five years seems to indicate that it has peaked. Whether its share price is driven further down by a run of bad press for the airline also remains to be seen.

One wonders exactly what all the fuss about this stock amounts to, since it doesn't pay a dividend, and it doesn't have high growth ahead of it. In terms of investors who already own stock in Air Canada, its current undervaluation also makes this a poor time to sell. However, if you own this stock and believe that it has peaked, it may be time to cut your losses.

The bottom line

All in all, Air Canada is a bit of a mixed bag. Unless you're looking to diversify your portfolio with cheap transportation stocks, but for no apparent gain, there seems little reason to buy today. The only Air Canada stock play that might make sense would be to buy on the current dip and hope for the stock to climb before selling fast.

However, that seems like something of a gamble and certainly not a strong move for risk-averse investors. A far better idea, if you are looking to add Canadian aviation to your portfolio, would be to buy a competitor that pays a dividend.

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