Air Canada (TSX:AC) Is an Absolute Steal!

Description

For those scavenging through the TSX for the biggest of bargains after it officially entered correction territory, your search is over. **Air Canada** (TSX:AC)(TSX:AC.B) is a heck of a bargain as we head deeper into the growth-to-value rotation, a trend that I don't think we've seen the last of yet.

Now, Air Canada is the epitome of value with its 4.4 trailing P/E, which is probably the lowest investable P/E multiple that you're going ever to find. While the multiple may seem too low and too good to be true, the fact remains that Air Canada's very well positioned to bear abundant amounts of fruit, as the Canadian economy continues to spread its wings.

Yes, the Canadian economy is still quite strong. Stephen Poloz mentioned this as part of the Bank of Canada's decision to hike rates last week, and although the TSX is in correction territory, I think investors ought to treat the dip as just another unremarkable correction, which is supposed to happen every year on average in a healthy bull market. Although I wouldn't rule out a recession, at this juncture, I'd say it's unlikely, and given how dirt cheap Air Canada stock is at current levels, it appears that the stock is mispriced to the downside with expectations that the probability of a recession is high.

Airlines have historically been abysmal holdings in a recession. But when you factor the excessively high fear levels in today's market and the fact that Air Canada has made significant strides to become a more recession-resilient company, I think investors shouldn't be as frightened by the sector with promising advancements exhibited by many of today's top airlines.

Why isn't Air Canada a cigar-butt stock?

Air Canada is cutting costs across the board, and with the recent acquisition of the loyalty program Aeroplan at an apparently modest multiple, Air Canada is well positioned to experience a prolonged, sustainable enhancement to its earnings growth profile.

It's not just about loyalty either. Air Canada's new aircraft allow for lower per-unit costs, which will allow the company to offset any upward bumps to fuel prices.

Margins are continually being enhanced, and there are many industry-wide catalysts (topping out of high fuel prices and continued economic growth) going on in the background, which leads me to believe that it'll just a matter of time before Air Canada takes off to $40.

Foolish takeaway

Warren Buffett had shunned the airlines in the past, but today he's an owner of them, because they're just too darned cheap! Today, a vast majority of investors appears to have severely discounted the technological improvements that have made today's airlines profoundly more investable than they've been in the past.

Moreover, ultra-low-cost-carrier arms like Air Canada's Rouge will allow many airlines to weather the storm come the next inevitable economic contraction. At a 6.9 forward P/E and a 2.4 P/CF, Air Canada is an absolute steal when you consider how much better the company's margins and environment will likely be in a year's time.

Next stop? I think it'll hit $40 over the next year, which implies 67% upside from today's closing price.

Stay hungry. Stay Foolish.

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Date
2025/09/17
Date Created
2018/10/30
Author

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