



Why Air Canada (TSX:AC) Could Realistically Double in 2019

Description

Air Canada ([TSX:AC](#))(TSX:AC.B) has been skyrocketing of late, with shares now up over 64% from its July lows. While I'm normally not a fan of chasing high-momentum names, I can't help but notice that the company still has ample catalysts in store over the near term, and despite the recent run, the stock still looks ridiculously cheap, as ridiculous as that sounds!

Back in 2016, I drove home the point that the airlines were experiencing a paradigm shift and were no longer bankruptcies waiting to happen, as they once were seen to be by prudent investors. Consider the vast operational improvements and efficiencies that have been unlocked since the pre-2007 levels. It's like Air Canada is now a completely different business — a more investable business that won't crush its investors come the next inevitable economic downturn.

[Lower fuel costs](#), the inhousing of a loyalty program, and low-cost-carrier Rouge are just a few of the “game-changing” developments that have caused many investors to shed their fear of airline stocks. As you're probably well aware, Warren Buffett, a long-time critic of the airlines, turned bullish on American airlines a few years ago, initiating long positions across the board.

In 2016, I brought up the idea that [Buffett may have loved to own shares of Air Canada](#) had he been Canadian:

“Buffett sees deep value in the airlines. There's no question that [Air Canada] stock is cheap after taking a huge beating over the last few years. The price-to-earnings ratio is at a ridiculously cheap 4.26, and the price-to-sales multiple is at 0.2. The stock is trading at a huge discount to its intrinsic value, and if you're a buyer at these levels, you'll enjoy a nice margin of safety because there really isn't much downside from here.”

Since my original Air Canada recommendation was published, the stock surged 150% to \$33.60, where it trades today. Despite the incredible performance over the past two-and-a-half years, I still think there's much more room to run.

Although I cautioned investors on the highly cyclical nature of the airlines, given the improvements that Air Canada has made to its operations over the past year, I now believe that the degree of market

sensitivity has been lowered substantially. Now, that doesn't mean the stock won't plunge come the next recession. Rather, shares won't crash and burn by over 90% as they did in 2007-08.

With this in consideration, Air Canada still appears ridiculously undervalued with shares trading at just 8.5 times next year's expected earnings and only 0.5 times sales. The stock could double, and it'd still be rather cheap, which I find to be absurd and warranting of a sharp upside correction.

Hats off to Air Canada's CEO for the fundamental improvements. Newly acquired aircraft are slated to continue to lower fuel expenses, and with Rouge ready to spread its wings wider, I see Air Canada as a deep-value play that's not only investable — it's a must-own stock for all Canadian value investors.

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