Air Canada (TSX:AC): Buy Canada's Best Airline Stock Before it Soars to $50

Description

Air Canada (TSX:AC)(TSX:AC.B) stock soared 5% on Monday following the release of its solid first-quarter earnings, which shined despite the grounding of Air Canada's **Boeing** 737 Max aircraft — a nationwide order that was expected to weigh on the company's earnings.

Even after Air Canada's post-earnings pop, the stock still appears severely undervalued given the fundamental improvements that have been made over the past few years.

At the time of writing, Air Canada stock trades at 10 times next year's expected earnings and just 0.5 times sales. That's pretty darn cheap given Air Canada's upward trajectory.

Sure, the airline industry is fickle, and you probably don't want your portfolio to be overweight such cyclical names in the latter stages of a market cycle, but as someone wise once said, at a certain price, every stock becomes a buy. And at today's levels, I still think Air Canada is priced at a considerable discount to its intrinsic value because many investors are still worried about the potential impact on the stock in the event of a recession.

With such high odds of such a catastrophic outcome already priced in to Air Canada stock, I think that makes the stock a heck of a buy, especially if you're like me and think that the airlines are going to be more resilient during times of economic hardship this time around.

Air Canada has invested heavily in sustainable cost-saving initiatives that'll help the airline better weather harsher economic conditions. More fuel-efficient aircraft, an ultra-low-cost-carrier (ULCC) arm, and the insourcing of the Aeroplan loyalty program (slated to launch in 2020) are among the cost-saving initiatives that lead me to believe that the next recession won't be as devastating to Air Canada as the last one was.

Moreover, the economics of Air Canada's growing ULCC arm Rouge is a key business that'll dampen cash bleed during tough times. With around 25% fewer expenses per seat relative to other non-ULCC flights, flying during tough economic times isn't as "nuts" as it used to be.

Best of all, Rouge will likely continue to drive costs lower, as the ULCC space becomes more crowded with Swoop and Wow Air getting in on the action. That means flight tickets will continue on the downtrend, and that's great news for both Canadians and Air Canada shareholders who are worried about the devastating impact that recessions have on airline stocks.

Gone are the days where airlines flirt with insolvency when the economy falters. I think we're entering an era where the most robust airlines won't crumble like a paper bag at the first signs of economic deterioration.

Of course, we won't know how much damage will be in store until the next "big one" hits, but I'm willing to bet that a 70% drop and a decade-long recovery time is now out of the question given how much more economical Air Canada's business has become.

Over the last few quarters, the Canadian economy has taken a stumble, with some pundits thinking that Canada is *already* in a recession. Despite the slowdown to Canada's economic growth, Air Canada has posted solid numbers, even in spite of the unforeseen 767 Max grounding that resulted in around 8,000 flight cancellations in the first quarter.

Air Canada clocked in $345 million in Q1, up from the $203 million loss recorded over the same period last year. The results go to show how far Air Canada has come since its dark days. Given the recent strength and the still depressed valuations, I think investors should strongly consider backing up the truck on Air Canada today, because shares are nowhere near peak altitude.

The stock is breaking out, and I wouldn't be surprised to see it break the $50 mark by year-end, implying 43% in further upside.

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