At What Price Does Air Canada (TSX:AC) Stock Become a Good Investment?

Description

It wasn't that long ago that **Air Canada** (TSX:AC)(TSX:AC.B) was really struggling.

The airline company was doing well after its initial public offering, staying around the $15 per share mark for a while — that is, until an operating loss partially due to oil price increases happened in 2012.

The stock plummeted to under $1 per share. And if you had bought then, you'd be feeling pretty great right now.

That's because this stock has made an entirely new transformation since that time — optimizing routes, changing schedules, retooling its fleet, and — of course — expanding. Canada is too small for this company, and Air Canada has since ordered aircraft that can support long-distance travel, taking advantage of U.S. citizens that have layovers in Canada. On top of that, Air Canada acquired its loyalty program, Aeroplan, and is set to relaunch it in 2020, and its low-cost carrier Rouge to support every type of traveller.

Of course, it hasn't been all good news for Air Canada. Re-fleeting will cost the company about $6 billion over the next few years, and international expansion means international competition, not to mention the competition back home from other low-cost carriers.

Then there was news that the company would be grounding its **Boeing** 737 Max aircraft, which should have really put pressure on earnings. The grounding was completely unforeseen, causing 8,000 flight cancellations in the first quarter. The grounding was due to a safety alert sensor malfunction on an Ethiopian Airlines flight last March and a fatal crash on Lion Air off the coast of Indonesia last October.

But if you're looking at this company's books, you're doubtless impressed. Air Canada recently released its first-quarter earnings to rave reviews, with $345 million in revenue compared to a $203 million loss last year. Operating revenue rose to a record of $4.45 billion, beating analyst expectations of $4.39 billion.

Yet the stock is still at just 10 times next year's expected earnings. And honestly, even at a share price of about $36 at the time of writing, this stock is still a buy. In fact, I'd say it's still even at a discount.

That's because the company, while still in the process of restructuring, has put in a number of initiatives that will save it money in the long run. That includes even during a recession. The aircraft it's re-fleeting with are more fuel efficient, saving the company tonnes of cash down the road. And with Rouge taking on 25% of the company's business, that's an ultra-low cost for both the carrier and consumer.

Given all this, it's really just the beginning for this stock, and many investors have already realized this to jump on board. Air Canada has long been touted as a fairly stable stock that would see steady increases over the long term. While that's still true, investors may now see a few jumps in share price, as the company comes out with more and more positive earnings reports.

In the next 12 months, many analysts believe the stock could break the $50-per-share mark. Given that it's already closing in on $40 per share, I'd say that number is an easy one to hit and could turn $10,000 into $13,889 by this time next year.

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