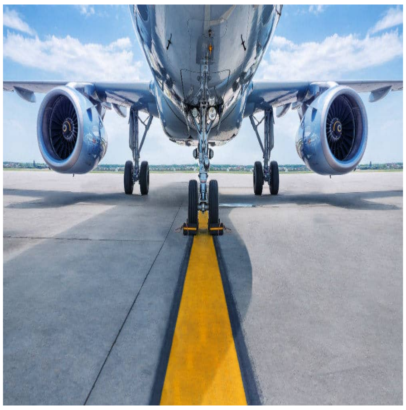

1 Stock Hitting 52-Week Highs That Is Still a Good Buy Today

Description

This past month, Canada's airline industry was disrupted when private equity firm **Onex** made a play for **WestJet**. In a $5 billion deal, Onex is expected to pay $31 a share for WestJet. This represented a 67% premium over its previous closing price. The move was unexpected and had a ripple effect across the industry.

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Outside the aforementioned companies, the stock most impacted was **Air Canada** (TSX:AC)(TSX:AC.B). Since the news broke, Air Canada's shares have jumped almost 10%, and it has announced a deal of its own — a $520-million-per-share takeover offer for **Transat AT** (TSX:TRZ). What does this mean for Air Canada investors? Let's take a look.

The Transat deal

At $13 per share, Air Canada's offer was at a 23% premium to the tour operator's previous close. The deal was immediately met with scrutiny, as experts believe it has little chance of passing regulatory approval. As Canada's largest airline, the move can potentially stymie competition. The general consensus is that Air Canada would have to make some changes to appease regulators.

Outside of regulatory concerns, Air Canada has since been met with competition for Transat's assets. Private real estate developer Group Mach has come in with a higher bid at $14 per share. The Mach offer has ties to the Quebec government, as it will require about $120 million in financing from the provincial government. The move by Mach is an interesting one. The Quebec government has raised concerns about Air Canada relocating Transat's headquarters out of the province. The Mach deal all but assures the tour operator will stay in the province.

To date, Air Canada has not matched the $14-per-share offer, and the exclusive negotiation period is scheduled to expire near the end of June. Adding additional doubt, Transat's largest shareholder is against the AC deal. Given Mach's interest, its ties to the provincial government, and the comments from Transat's top shareholder, the deal is still an upwards climb.

Current valuation

For a number of years, Air Canada's stock was chronically undervalued. It is therefore not surprising to see that its share price has popped by 51% in 2019 — the majority of which came prior to the Onex for WestJet deal. The interesting part for investors is that the company still provides excellent value.

Canada's largest airline is trading at only 8.55 times forward earnings and sports a 0.55 price-to-earnings to growth (PEG) ratio. A PEG ratio under one signifies that its share price is not keeping up with expected growth rates. It is thus considered undervalued. Analysts are expecting robust 19% average annual earnings growth over the next five years and have a one-year price target of $44.93 per share. This implies 14% upside from today's share price.

In 2019, Air Canada has been hitting 52-week highs on a regular basis. This doesn't mean its due for a correction. On the contrary, current valuation implies that price momentum can still carry the stock to new highs.

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