



Fasten Your Seatbelt: Air Canada (TSX:AC) Investors Are in for a Turbulent Ride!

Description

Air Canada ([TSX:AC](#))(TSX:AC.B) has been on a heck of a run over the last four years — a timespan that saw the stock surge over 500% from peak to trough. The stock has been a high flyer (no pun intended), and along the way, I've been bullish on the company, urging investors to buy the name, as its shares traded at a single-digit P/E multiple (it's been in the single digits for a pretty long time).

“Air Canada is the best bet at this juncture with the remarkable efficiencies and cost-cutting initiatives that'll leave a long-lasting, positive impact to growth on the bottom line. The stock trades at eight times next year's expected earnings and 0.5 times sales, which is ridiculously cheap, even for a seemingly economically sensitive company as an airline.” I said in a [prior piece](#), urging investors to buy the name while the stock was trading at a discount to its intrinsic value.

After nearly doubling again year to date, though, the stock has looks to have finally become fully valued, and I think the window of opportunity behind the airline that's bettered itself significantly over the years has closed.

While Air Canada's acquisition of Air Transat, which is slated to close in the second quarter of next year, bodes well for long-term growth, I think there are limited synergies to be had given the now “sweetened” takeover price of \$18 per share.

Moreover, given the regulatory hurdles that exist, it's still a possibility that the takeover of Transat could fall through, as David Jagielski noted in his [prior piece](#) published this August.

“Competition-related issues have thwarted mergers and acquisitions in the past. The merger between Staples and Office Depot is a good example where the companies saw resistance both in Canada and the U.S., and ultimately, the deal fell through.” said Jagielski. “In this case, Air Canada and WestJet will still be the main competitors in the industry, but there could be a big change in how competitive the companies will be.”

Air Canada could easily grow to control nearly half of the domestic market should the Transat deal not get blocked by regulatory bodies. This type of consolidation could hurt Canadian consumers, so I

wouldn't at all be surprised to see the Air Canada-Transat deal get blocked amid the deteriorating Canadian economy.

Foolish takeaway

There's no question that Air Canada has been an unbelievable holding, but as someone wise once said, "you can only squeeze so much juice out of an orange."

The operational improvements made in the past appear to be more appreciated by investors now that the stock trades at 12.3 times trailing earnings and 3.3 times book. I think the multi-bagger days of the stock are far behind it and believe that investors ought to expect a bit of turbulence as the economic pressures mount.

Personally, I'd sell the stock before it has a chance to fall into a tailspin back to \$40.

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