



Air Canada Investors: This Airline Finally Looks Fully Valued

Description

I've been commenting (more like [screaming](#)) on the Motley Fool for years that **Air Canada** (TSX:AC.B)([TSX:AC](#)) has been undervalued, and has remained undervalued compared to its peers in the U.S. and its main domestic competitor, **Westjet Airlines Ltd.**

Watching Air Canada's stock price rise to incredible highs of late is something that isn't entirely unexpected given the fundamentals underpinning this airline in this competitive space.

Potential headwinds

From a valuation perspective, Air Canada has gained significant ground on its peers, and while still cheaper than Westjet, shares of Air Canada may now be getting into the uncomfortable situation of flying too high too quickly, meaning that the risk with respect to this stock now outweighs potential reward for some conservative long-term investors.

With memories of a near-liquidation in the minds of many investors without a long track record of investing, it should be noted that airlines in general are highly susceptible to negative macro events.

One only has to think back to serious recessions, 9/11 or other airline scares, which push the public away from flying toward staying home.

With risks seemingly remaining muted, investors continue to pile into the airline sector — a move that's created wealth for those who have bet that the industry would recover, as I [recommended](#) in recent years.

Potential tailwinds

The good news is that Air Canada remains strategically important to the Canadian government, and as we've seen with other key Canadian economic sectors, the Canadian government's willingness to step in and bail out companies like Air Canada is a real reason to buy and hold for the long term for many

investors.

In other words, if things get really bad, there's likely a floor beneath Air Canada's share price that's unlikely to be breached, a reality that supports the belief that the potential downside here isn't dramatic.

Air Canada's balance sheet has looked a lot better in recent years, with the company actively de-leveraging and taking advantage of increased cash flow to pay down its massive debt load — one of the concerns many long-term investors had with this airline.

The ability of Air Canada to integrate Aeroplan into its loyalty program through acquisition should also not be understated, a move that's has created stickiness with respect to the company's flyer base and more reasons for flyers to remain loyal to Air Canada amid a highly competitive airline industry in North America.

Stay Foolish, my friends.

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