



## Air Canada (TSX:AC) Stock: Should You Buy Now or Later?

### Description

**Air Canada** ([TSX:AC](#))(TSX:AC.B) stock is a Canadian success story. The airline almost went bankrupt and traded below \$1 per share about 11 years ago.

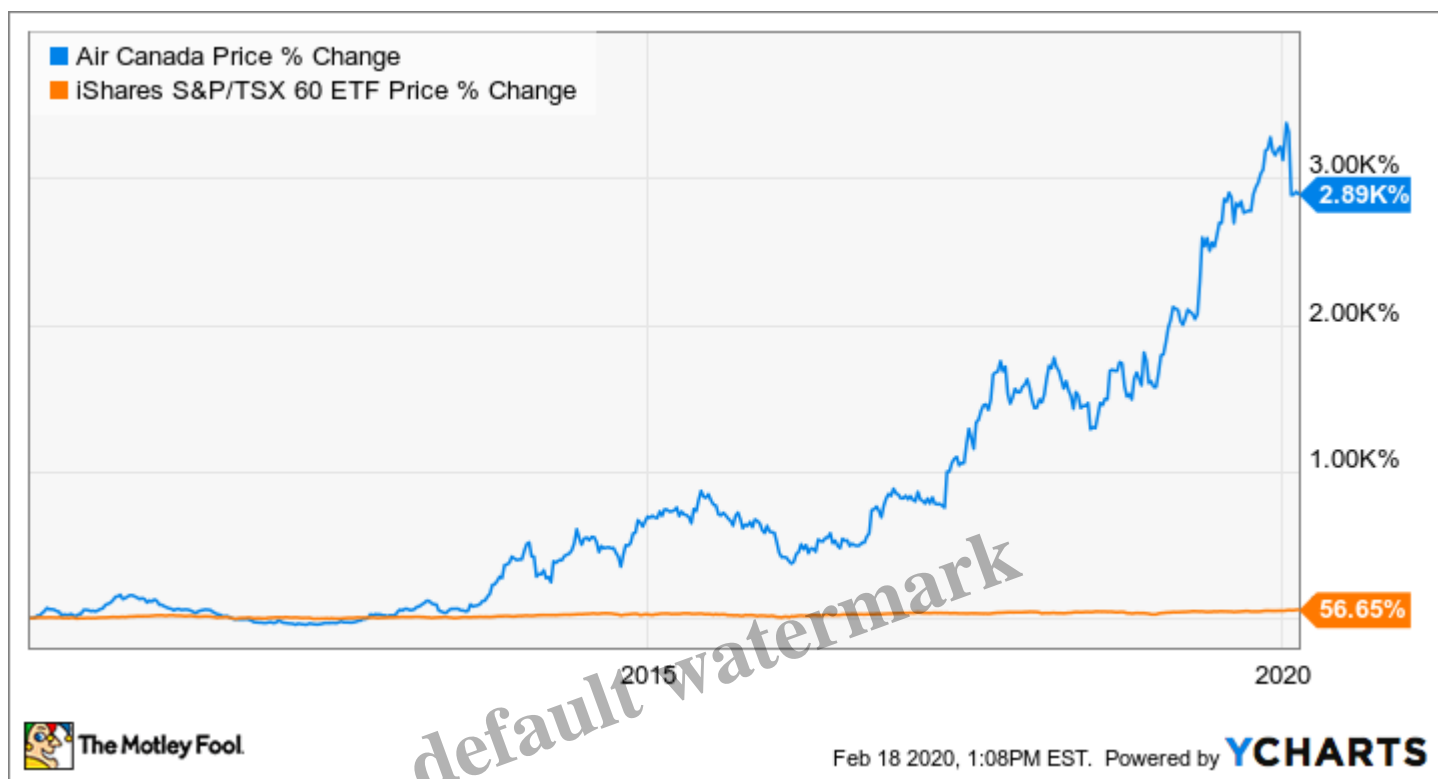
However, it has miraculously turned around and generated tremendous value for its shareholders. Even if you had bought the stock at \$8 per share when it showed signs of turning around, you'd still be sitting on a five-bagger!

In the last 12 months alone, the value stock appreciated 35%, handily beating the TSX index.



AC data by YCharts.

When bought opportunistically, airlines like Air Canada stock can be [exceptional winners](#) in your portfolio!



AC data by YCharts.

The company just reported its fourth-quarter and 2019 results today and gave a little more clarity on the coronavirus outbreak's impact on the company.

## Q4 and 2019 results

In Q4, Air Canada's operating revenues increased by 5% to \$4.4 billion. The operating margin fell 90 basis points to 3.3%, which triggered 19% lower operating income year over year to \$145 million.

However, the EBITDA margin improved 40 basis points to 15%, boosting EBITDA by 7% to \$665 million. Adjusted earnings per share fell 15% to \$0.17 year over year.

For 2019, the company reported operating revenues of \$19 billion, an increase of 6% against 2018. The operating margin improved 30 basis points to 8.6%, which helped operating income climb 10% year over year to more than \$1.6 billion.

Additionally, the EBITDA margin improved by 120 basis points to 19%, boosting EBITDA by 13% to \$3.6 billion. Ultimately, this resulted in adjusted earnings per share rising 26% to \$3.37 in 2019.

## Decent valuation

Airlines certainly have value right now, seeing that value investing guru Warren Buffett holds at four airlines via **Berkshire Hathaway**, though he doesn't hold Air Canada specifically.

At writing, Air Canada stock trades at about \$45 per share, which is a trailing price-to-earnings ratio of about 13.4. Meanwhile, the airline is estimated to experience long-term double-digit growth.

In fact, analysts have an average 12-month price target of \$57.20 on the stock for market-beating upside potential of 27%.

So, the stock trades at a decent valuation for long-term investment.

## 2020 outlook: Coronavirus impact

The novel coronavirus outbreak that originated from Wuhan, China, began on December 31. Therefore, the impact of it hasn't really been reflected in the results yet.

**Cowen**, an independent investment bank, reviewed the coronavirus impact on Air Canada and its North American peers and concluded that the company has the greatest exposure of 6% to China and 13% to the Asia-Pacific region compared to its peers that had exposure of 2-4% and 3-10%, respectively, to the geographies.

Air Canada management expects results in the first half of the year to be under pressure. It pointed out that "[there has been] recent service suspensions to mainland China and from Toronto to Hong Kong." Combined with higher operating expenses from aircraft maintenance and employee benefits, management estimates EBITDA to be \$200 million lower in Q1 2020 against Q1 2019, which would be a 34% decline!

Management currently "assumes that Air Canada's mainland China and Hong Kong services will be fully recovered by the third quarter of 2020 and that the Boeing 737 MAX aircraft will gradually return to service commencing late in the third quarter of 2020."

## Investor takeaway

Air Canada stock trades at a decent valuation. However, the coronavirus outbreak will likely add pressure to the stock over the first half of 2020. Therefore, investors looking to add new money should consider doing so on potential further weakness.

Keep in mind that [airline stocks](#)' performance is highly sensitive to economic booms and busts. So, investors should keep their positions small, unless the stock falls to a single-digit P/E, which represents a maximum price of about \$30 per share based on Air Canada stock's 2019 earnings.

Over the long term, the company should deliver above-average returns given its relatively low valuation — as long as investors can stomach its above-average volatility as well.

While you wait for further weakness from Air Canada stock, you can consider other cheap stocks.

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