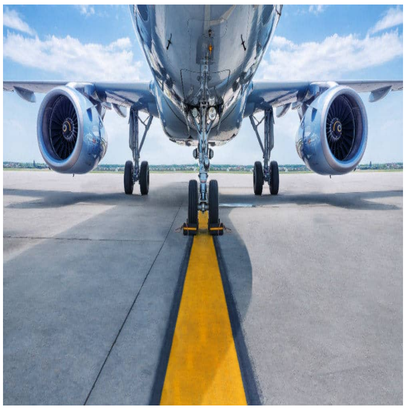

Is This Canadian Airline Stock a Buy Today?

Description

After seeing the **S&P/TSX Composite Index** drop almost 10% during the last two weeks of February, things have not looked any better through the first half of March.

The coronavirus, also known as COVID-19, is largely responsible for these dramatic fluctuations in price. As the global impact of the virus continues to increase, investors are showing that they would prefer to be on the sidelines until positive news begins to circulate.

The travel industry has been taking a beating, as many people across the globe are canceling trips to avoid the virus. **Air Canada** (TSX:AC)(TSX:AC.B) can attest to that, as the stock is down 45% since the beginning of 2020. But it isn't just the coronavirus that Air Canada has to blame.

Earnings report

After the stock price ran up 80% in 2019, investors were largely underwhelmed with the 2019 Q4 report announced in February. Revenue came in slightly lower than expected, but the adjusted earnings per share (EPS) of $0.17 was far below the expected $0.38.

There's no question that Air Canada began 2020 facing strong global headwinds. In addition to COVID-19, the company is still dealing with the business impact of a worldwide grounding of the Boeing 737 MAX in 2019. Air Canada CEO Calin Rovinescu is expecting a 2020 Q3 return for the plane.

Another catalyst for the steep drop in stock price was the guidance management gave for 2020. In addition to missing 2019 Q4 estimates, the company addressed the significant headwinds that will be faced during 2020. Management projects 2020 Q1 EDBITDA to be roughly $200 million below where it was in Q1 of 2019.

The company may have a volatile year ahead of it, but management had an optimistic attitude during the conference call about the future of the company.

The Air Transat merger has yet to be factored into any guidance, as it is still in the approval process.

Management believes that the added airline will benefit both customers and shareholders through new travel options and benefits.

A new loyalty program is also set to be launched at some point during 2020. Although the company has not yet released many details surrounding the program, Calin Rovinescu confidently noted during the earnings call that he expects it to be a top-tier loyalty program.

Valuation

The future may be uncertain for the Canadian airline, so let's review the valuation of the company to see if it's at an attractive price today.

The P/E ratio is typically used by investors to evaluate if a stock price is expensive or cheap. The calculation is simply the stock price divided by the earnings per share. The ratio helps determine the amount of earnings power each share provides for investors. The higher the P/E ratio, the more expensive the stock is considered to be.

At a share price of $27.40 and an EPS of $5.43, Air Canada currently has a P/E ratio of $5.05. When comparing to a P/E of $16.51, which is the average of the 10 largest companies in the **S&P/TSX 60**, Air Canada is a complete steal at this price.

Foolish bottom line

COVID-19 and the Boeing 737 MAX are two very strong bear cases to make against Air Canada in the short term. But if you're a long-term Foolish investor that can stomach that anticipated volatility, you may be thanking yourself in a couple of years that you grabbed this airline stock while it's on sale.

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