Air Canada (TSX:AC) Could Soar to $45 by 2022

Description

It's tough to justify buying shares of **Air Canada** (TSX:AC)(TSX:AC.B) for your Tax-Free Savings Account (TFSA) after the March madness. The stock imploded by over 75% from peak to trough. In essence, the stock halved — twice!

And with nothing stopping the stock from halving again, Air Canada, which is less levered than most of its American peers, is a deep value bet for a fearless investor looking to go against the grain.

Not everybody is comfortable with seeing their investment tank by double digits, though. Moreover, with an unprecedented magnitude of revenue decay on the horizon as a result of the travel-industry-crippling COVID-19, it's become pretty tough to value the airlines.

They're heavily indebted, fixed costs are high, and nobody knows by what degree traditional valuation metrics like price-to-earnings (P/E), price-to-cash-flow (P/CF), or price-to-sales (P/S) will be reset.

Hard to value, hard to hold

As the insidious coronavirus continues its spread across the U.S. and Canada, the airlines are poised to see their top line fly south in a hurry. As such, airline stocks, although a Warren Buffett favourite, are not only hard to hold because of the off-the-charts volatility, but they're also hard to value at a time like this.

The single-digit P/E multiples of airline stocks have been avoided by a majority of investors when times were good, and profits were through the roof.

Now that P/E multiples are in the low-single-digits alongside the bruised cruise line stocks, few investors know whether the traditional valuation metrics like P/E are to be trusted given the massive magnitude of multiple expansion on the horizon.

With a recession looming, it seems crazy to follow in the footsteps of Warren Buffett by picking up shares of any airline, including Air Canada, which I view as being in far better shape compared to its peers south of the border.

Why Air Canada's risk-reward is too good to ignore

The single-digit P/E multiples may not mean much with the airline industry put on pause as expenses continue racking up. Just have a look at what happened to Air Canada during the Financial Crisis of 2008-2009 and you'll see that many knife catchers got hurt as the stock fell below a buck.

Unlike prior to the Financial Crisis, though, Air Canada and the entire industry are in much better shape today, even though it may not seem like it!

The airlines are far more operationally efficient, and the industry has matured by leaps and bounds over the last decade. I noted in a prior piece that the airlines were better prepared for another nasty structural economic decline and would likely fare far better in any downturn that wasn't induced by a pandemic!

Unfortunately for the airlines, a severe pandemic happened, and the same story looks to be unfolding for the airline stocks like Air Canada, confirming the bailout waiting to happen thesis that made many investors allergic to airline stocks.

Air Canada: The airlines are different this time around

While a pandemic is, indeed, a worst-case scenario for the airlines. I do think they're a buy here, unlike during the Great Recession.

Once the pandemic is over, revenues will recover with a high probability of making up for lost time with all the pent-up demand that could result. While the coronavirus will leave a recession behind, I don't see it as being severe as 2008 given the unprecedented amount of fiscal stimulus and the fact that past event-driven economic declines have proven to be more temporary relative to cyclical downturns.

The economy was ridiculously strong before the pandemic pullback. And if the fiscal stimulus ends up working, the economy could not only return to its peak form; it could go beyond that with the shot in the arm of rock bottom interest rates, potentially sending Air Canada right back to all-time highs.

Even if we were to suffer from a recession, don't expect the airlines to remain as depressed as they were before the Financial Crisis.

The airlines now have a better value proposition, and with oil at generational depths, the airlines can pass on more of the savings to financially-strapped consumers.

Foolish takeaway

Air Canada will survive this onslaught, and in a best-case scenario, I wouldn't at all be surprised to see the name triple to $45 within two years.

Stay hungry. Stay Foolish.

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