3 Reasons Air Canada (TSX:AC) Stock Could Double by 2022

Description

Air Canada (TSX:AC) is at the epicentre of the ongoing crisis. Airline stocks were the first to drop when the pandemic erupted. Now, Air Canada stock is still trading 67% lower than it was in January of this year.

Investors are concerned that flying will never be the same again. That social distancing and tougher border controls will limit the number of people who fly, keeping airlines unprofitable. That's why Air Canada stock is still flying low.

However, there are three reasons the stock could rebound sharply and perhaps even double within two years.

Better finances

Firstly, Canada's largest airline took decisive action when the pandemic hit. The company has cut costs and raised funds to help it survive for years.

The company has issued new shares and raised more debt in recent months. Now, the team has $8.6 billion in cash and cash equivalents on its books. That's $29 in cash per share, while Air Canada stock is trading at $17. Assuming the company continues to lose $1 billion every quarter, this cash could help it survive for eight quarters or two more years.

Meanwhile, the layoffs and canceled flights should reduce costs. With less wages to pay, fewer aircrafts to maintain and lower fuel costs, Air Canada can prolong its survival for as long as it takes.

Of course, this strategy involves tremendous debt. Air Canada's biggest cost for the next few years could be the interest on this debt. Fortunately, debt is cheaper than ever. The average interest rate Air Canada pays on its corporate bonds is roughly 5%.

Full recovery

Another reason Air Canada stock could stage a comeback is the gradual recovery in air travel. Canadians have resumed flying domestically, as the number of coronavirus cases declined. This year, many families spent their summer vacations in local Canadian destinations than abroad.

International travel is likely to recover too. Several European countries have lifted restrictions on Canadian travelers. Japan is even offering subsidies for foreign visitors.

If a vaccine is discovered or if the pandemic is controlled within the next two years, air traffic could rebound to pre-crisis levels quickly. That's a speculative bet at this point, but it's far from impossible

Air Canada stock valuation

Air Canada stock now reflects all the uncertainty and pessimism about the economic and health crisis. The stock is trading at a severely suppressed valuation, indicating that the company could be on the verge of bankruptcy

While bankruptcy is certainly a possibility, I believe the upside outweighs the downside at this price. Air Canada stock is trading at less than cash per share, 2.5 times book value and 0.36 times sales per share.

Before the crisis, the stock was trading at 10 times expected earnings. The company generated $1.47 billion in net income last year. If the airline can recover to a point where it is generating $1 billion in net income by 2022, the market value should be $10 billion at a price-to-earnings ratio of 10. That's *double the current value*.

Bottom line

Air Canada stock has taken a beating this year, but could double by 2022 if air traffic normalizes.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise

6. Yahoo CA

Category

1. Investing

Date
2025/07/26
Date Created
2020/08/28
Author
vraisinghani