



Should Contrarian Investors Buy Air Canada Stock Today?

Description

Air Canada ([TSX:AC](#)) stock is looking more interesting today for contrarian investors. This is because the company recently made an interesting announcement. Up until this announcement, I saw little to cling to for this company. Now I see more catalysts.

In this article, I will take you through this event that has gotten me less pessimistic about Air Canada stock.

Is Air Canada stock a good bet for contrarian investors?

Air Canada may seem like a good bet for contrarian investors. There are certainly some merits to this. I mean, before the pandemic, the airliner was a top-notch business. It had gone to places that were never reached before. Ultimately, Air Canada stock had soared to new heights. But today, the pandemic has changed everything. Once a thriving business, Air Canada is holding on for dear life. So, for contrarian investors looking to climb aboard, it is still very early in the game.

[Many of us at Motley Fool have spent months saying that Air Canada stock was not worth the risk.](#) The future holds too many uncertainties. Air Canada is bleeding money, and the airline industry is a shell of what it once was. Furthermore, visibility and predictability are pretty much non-existent.

Recently, Air Canada made an announcement that has piqued my interest. Remember the **Air Transat** deal that was put on the sidelines after the pandemic reared its ugly head? Well, Air Canada is ready for it — six months later and \$13 a share lower.

Air Canada's deal to buy Air Transat to drive long-term value

The value of the Air Transat acquisition equates to a value of approximately \$190 million. Compared to Air Canada's over \$9 billion in liquidity, this is small. Also, this represents a discount of approximately 72% versus the initial purchase price.

I believe that this will be looked upon as a winning move in the long term — one that will have created massive shareholder value. But in the short term, this is stressful. How can Air Canada double down on the airline industry at a time like this?

Well, it's pretty simple. A great business model that is concerned with long-term value acquires at rock-bottom valuations. As we know, the only time we really get to these valuations are in times of crisis. It is only the brave and the financially well managed that can be buyers in these times.

This move by Air Canada speaks volumes. It says that Air Canada is thinking long term. We at Motley Fool like that because the best decisions are guided by long-term thinking. Of course, buying an airliner these days is not a popular decision. In the short term, it can prove to be very dangerous.

This leads me to financial management. [Only a company that has taken care of its balance sheet and of its finances can engage in such anti-cyclical moves](#). Air Canada has over \$9 billion in liquidity today. Fixed expenses have been cut by \$1.3 billion as fleet capacity was reduced by over 90%. And its debt is mostly long term.

Air Canada stock will also benefit from other developments

Other developments that Air Canada stock will benefit from are also driving some optimism. Most significant is the fact that Air Canada is currently finalizing an order for rapid-testing kits. This initial order for newly approved rapid-testing kits from Abbott Laboratories could be a game changer. In conjunction with increased precautions at airports and on planes, it could mean the slow return of travelers.

Lastly, Air Canada is revamping its Aeroplan loyalty program. The new Aeroplan program will be easier and more rewarding for members. It will offer easy e-upgrades and benefits sharing.

Motley Fool: The bottom line

Air Canada stock remains a risky proposition. However, for long-term contrarian investors, it is starting to look interesting. A return to something near normal will eventually happen when the pandemic eases. In my view, this will be accompanied by strong gains in Air Canada stock.

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