



Air Canada (TSX:AC) Stock's Comeback Rally Has Only Just Begun

Description

Air Canada ([TSX:AC](#)) and other airline stocks crumbled like a paper bag back in February and March. Unlike many of its peers south of the border, AC shares are still a country mile (over 50% at the time of writing) away from their pre-pandemic highs, even after [November's epic risk-reversing bounce](#).

While Air Canada does have a stellar liquidity position relative to many major U.S. airlines, the Canadian airline still faces a tougher uphill battle en route to post-pandemic normalcy.

Why? Air Canada derives a greater chunk of its revenues from international travel, which is slated to recover at a slower rate than that of domestic travel.

Moreover, as this second wave of COVID-19 infections worsens, travel restrictions are likely to continue to [weigh heavily](#) on Air Canada's top-line versus some of the domestically-focused airlines south of the border.

Air Canada isn't out of the woods yet, but its stock remains dirt cheap

If Air Canada faces a slower recovery than that of a domestic airline, should investors bail on the name and opt for an alternative play on the recovery of the air travel scene? I don't think there's a need. Valuations, I believe, already reflect Air Canada's "bumpier" road to recovery.

Moreover, an international travel recovery won't lag too far behind that of domestic travel. Although we're likely to see some temporary loss in demand for international business travel, we'll gradually witness a slow and steady reversion to 2019 levels in time, as the U.S. airlines did following 9/11.

Air Canada has also done a spectacular job of battening down the hatches in this pandemic by cutting capacity and raising ample amounts of liquidity. I'm confident in the firm's ability to weather another two-quarters worth of pandemic-plagued quarters.

Moreover, investors will be more forgiving come the reveal of the fourth-quarter results. With the earnings bar set to (or near) the floor, AC stock looks like a compelling option for upside-seeking investors who've yet to punch their ticket to a COVID-19 recovery play.

Post-pandemic multiple expansion in order if Air Canada survives the pandemic?

If Air Canada makes it through this crisis under its own footing – and I think it will — one has to think that investors will see the once wildly profitable airlines as less of an insolvency just waiting to happen and more of a sustainable business that can weather even the worst of storms.

The coronavirus pandemic is essentially the worst nightmare for air travel companies. If Air Canada is still standing and passengers return in droves, not only do I think AC stock could see \$50 again, but I also think that shares could soar much higher, with some multiple expansion factored in.

Foolish takeaway

Even before the pandemic started, investors seemed skeptical over Air Canada's ability to sustain profits over time, given the airlines' track record of imploding during economic downturns and crises. Once this pandemic is over, and Air Canada is still standing, a considerable amount of multiple expansion could be in order.

In the meantime, investors should expect ample turbulence as Canada's top airline stock looks to make it through another few quarters. If you're numb to volatility and are willing to hold Air Canada through 2021's end, I find few reasons not to start accumulating shares of the stock today.

CATEGORY

1. Coronavirus

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Coronavirus

Date

2025/08/01

Date Created

2020/12/02

Author

joefrenette

default watermark

default watermark