



## Is Air Canada Stock Really That Cheap?

### Description

**Air Canada** ([TSX:AC](#)) stock faces another [turbulent](#) ride in 2021. With a potential end to the pandemic in sight, though, AC stock is less of a speculative gamble with options-like upside and more of a sound value investment. That said, the name is not without its fair share of risks, as we're not yet out of the woods with this horrific coronavirus crisis.

With a potential third wave of COVID-19 cases that could send the nation into further lockdowns, the airlines will find themselves skating on thin ice again. If things take a turn for the worst, there's no question that AC stock could revisit the mid-to-high teens, as bankruptcy fears grip investors again, as they did when there was limited visibility with the vaccine timeline earlier last year.

## COVID-19 mutations could weigh on Air Canada stock

The real risk for Air Canada stock, I believe, are the mutated variants that could threaten to extend this pandemic into 2022. We've all heard about the U.K. and South American strains of COVID-19 that appear more infectious. While many pundits don't suspect such strains will drastically affect efficacy rates of the current slate of vaccines, one must not rule a future mutated strain that could harm inoculation efforts.

The more the insidious coronavirus spreads, the greater the chances are of having a mutation.

Just recently, the Japanese National Institute of Infectious Diseases (NIID) identified a new COVID-19 variant in travellers arriving in Japan from Brazil. It's not yet known if the new strain is more contagious, like the variants identified in the U.K. and South Africa, if vaccine efficacy rates will be impacted, or if it leads to more severe illness. Studies into the latest variant are ongoing.

If the strain is found to impact efficacy rates, the reopening plays, Air Canada stock included, could be in a spot to surrender a huge chunk of the gains posted in November.

COVID-19 risks are back on the table, and AC stock will not be spared if we're in for a retracement in reopening plays, which may face a vicious revaluation to the downside if bad news suggests that the

pandemic will end later rather than sooner.

## Is AC stock still cheap?

While AC stock could go either way over the near-term, those with the time horizon have much to gain if they're willing to ride out the volatility, using any dips as [opportunities](#) to put more money to work.

When it comes to such wildly volatile plays like Air Canada, whose future success depends on the elimination of the insidious novel coronavirus, it's a smart move to dollar-cost average into a full position, rather than placing an entire bet at one instance.

At the time of writing, Air Canada stock looks too cheap for its own good at 3.9 times book value, given its recovery prospects and earnings growth potential in the post-pandemic environment. The balance sheet isn't the strongest in the world. Still, Air Canada, I believe, remains on a steady financial footing, ready to weather another several waves worth of tough travel restrictions.

Air Canada shares look cheap, but they may not be as cheap as they seem, given the potential for negative surprises in 2021. With the rising threat of new COVID-19 variants, I'd personally sit on the sidelines and wait for the stock to approach the high teens before considering initiating a starter position.

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