



Why Air Canada Stock Hasn't Looked This Cheap in a While

Description

There are a tonne of reasons why **Air Canada** ([TSX:AC](#)) looks like a stock no one should touch right now. The pandemic is killing passenger volumes, the company's burning through cash like it's going out of style, and there's still no bailout (despite bailouts in the U.S. and E.U.).

In many ways, it's hard to be bullish on airlines now. However, I'm going to highlight the bull case for why Air Canada could actually look really cheap right now.

Optimistic sentiment starting to take hold

The optimists look like they're winning out on Bay Street. Stocks are soaring, and investors are looking well past this pandemic, into 2022 and beyond, when forecasting earnings. Accordingly, stocks like Air Canada could be due for "lift-off" if sentiment holds.

There appears to be a pervasive view taking hold that airlines will be the beneficiary of a post-pandemic boom. The amount of [pent-up demand](#) for discretionary travel could indeed outweigh any secular damage done in the business travel segment.

In Air Canada's case, its most profitable routes were international locations. These routes have been decimated due to pandemic-related travel restrictions. Once we see mass vaccinations promote the call for opening up borders, Air Canada's stock should take off along with its business. Predicting when this will happen is the more difficult task.

However, with vaccinations ramping up in the U.S. and Europe, optimism is high. Canada is a real laggard in this regard (not bullish for Air Canada). However, global vaccination rates outside of Canada might matter more for travellers, as Canadian border restrictions remain among the most strict in the world.

Air Canada is bigger (and badder) than ever

Air Canada's recent acquisition of **Air Transat** makes for a true duopoly in the Canadian airline sector. This acquisition also cements the company's position as Canada's largest airline.

More important, the merger of these two airlines adds more exposure to the vacation travel segment, which makes Air Canada's long-term growth prospects more appealing than ever right now. The fact Air Canada was able to scoop up this airline at a massive discount is also bullish for investors.

Indeed, if vacation travel rebounds to the extent optimists believe, this acquisition could turn out to be a genius one in the short term. Air Canada's size should provide the company with a larger moat and more pricing power over the long-term. This is extremely bullish for long-term value investors looking past the pandemic, a decade or two down the road.

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