



Air Canada: A Top Recovery Play to Buy Right Now

Description

For Canadian investors looking for the best turnaround plays, you've come to the right place. I think **Air Canada** ([TSX:AC](#)) could have the most upside out of any such rebound play in Canada right now.

Here's more on why investors should consider this stock today.

Economic sensitivity positive for Air Canada shareholders

The reality is airlines are probably the most levered play on an economic rebound post-pandemic one can find. Indeed, Air Canada is a great example of a pandemic-sensitive company that has been beaten to a pulp over the past year.

Concerns around the long-term structural damage this pandemic will leave on air travel has been major cause for concern for some investors. Indeed, the levered nature of Air Canada with respect to the broader economy has not worked in this stock's favour of late. This stock has been hammered for a reason.

Yes, shares are recovering now. However, the company's share price is a far cry from pre-pandemic levels. Despite nearly tripling from pandemic-driven lows, shares are still approximately half what they were at pre-pandemic peaks.

Investors therefore need to remain optimistic about what the future of travel will look like post-pandemic.

Air Transat deal bullish for growth long term

For optimists who believe, as I do, that the pandemic will end (one day), Air Canada's [recent deal](#) to acquire **Air Transat** is looking smarter every day.

This deal gives Canada's largest airline increased market power in what was already a highly

consolidated sector. Accordingly, investors should be able to reap longer-term benefits related to improved cash flow and earnings growth over time.

Additionally, Air Transat's primary business is in providing vacation travel solutions to its clientele. With vacation travel likely to rebound sharply, this acquisition positions Air Canada well. The company will be able to grow its already strong foothold in the vacation travel segment. This should help offset losses from business and commuter travel declines.

Conclusion

Airlines are highly cyclical stocks. Accordingly, how investors view the economic recovery coming out of this pandemic will likely have an outsized effect on this stock.

For pessimists, Air Canada is a stock to avoid right now. There are many risks with the economic reopening. Vaccine rollouts could prove to be slower than expected. We could see multiple waves of coronavirus ravage the economy. Indeed, the downside risks to cyclical stocks can be viewed as untenable right now.

However, for optimists, this is a stock one has to love right now. Air Canada's well positioned to grow its way out of this pandemic. If a bailout materializes, the company's balance sheet could look a lot better. Of course, these potential catalysts are enticing. I find myself on the more optimistic side of the fence right now.

Accordingly, I think Air Canada is one of the best turnaround plays on the **TSX** today.

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