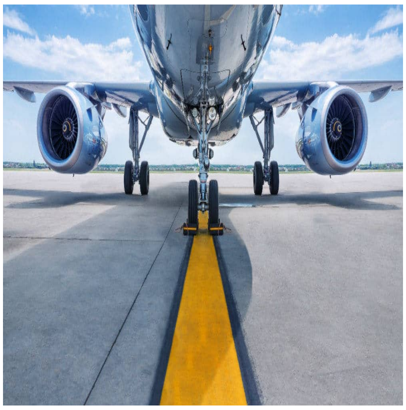

Air Canada (TSX:AC): A Smart Buy at $26?

Description

The vaccine rollout is underway in Canada, and it is picking up pace. This paints a far prettier picture for Canadians and the world in general regarding the pandemic. The onset of COVID-19 and ensuing lockdowns devastated several sectors of the economy. With the possibility of an end to this global health crisis, it could be an ideal time for investors to seek rebound plays.

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Air Canada (TSX:AC) is one of the top post-pandemic rebound picks that I will discuss today. The airline sector was one of the worst-hit industries amid the pandemic. Air Canada is the most dominant airline operator in the country, bearing the country's flag, and it was devastated by the pandemic.

There is a recovery on the cards

Between January 17, 2020, and March 20, 2020, the stock declined by 75.70%. With many other stocks rising from the ashes in the last few months, AC has also begun climbing up the ladder.

At writing, AC is trading for $26.98 per share, and it is up 117% from its March 20, 2020, bottom. Despite gaining so much on the stock market, its valuation is still over 47% below its pre-pandemic highs. There may be ample room for Air Canada stock to grow, because conditions are improving for the company.

The pandemic led to international and domestic air travel coming to a halt out of nowhere. Most people were stuck working from home, as they practiced social distancing to curb the virus's spread. It would be safe to say that whoever can afford to will be itching to go on vacation outside the country once borders open up and it is safe to travel.

The pandemic pummeled Air Canada's operating revenue, but it has managed to slash its operational costs, and its air cargo business delivered fantastic results for the company. Air Canada might expand its air cargo segment in the long run. With the possibility of a government bailout on the horizon, rebound enthusiasts are becoming increasingly enthusiastic about its recovery.

Failed merger that nobody seems to mind

Air Canada had a merger with **Transat AT** underway for a long time; it was considered a great deal. Transat AT was not in a strong financial position, and it needed the merger to come through. Everything seemed to be going as planned, and the deal passed regulatory approval in Canada. However, E.U. regulators completely rejected the merger, and Air Canada announced that it was going to walk away from the deal.

The Transat AT deal added significant leverage to the company's vacation travel segment. Typically, the failure of such a significant deal would cause investors to unload their shares in the company. That said, it appears that investors remain bullish regarding Air Canada's core business regardless of its failed merger with Transat.

While it might be bad news for Transat, the deal was a small one for Air Canada. The flag-carrying airline can focus on increasing its operational capacity for organic growth instead of acquisition-focused growth. It certainly has a wide enough economic moat to weather the storm and continue recovering.

Foolish takeaway

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Air Canada is still cheaper than its pre-pandemic valuation. Considering the positive circumstances, it is likely to be a bargain at its current valuation for long-term investors.

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