



Can Air Canada Stock Return to \$50 by 2022?

Description

Ever since the pandemic started, I have cautioned investors against investing in **Air Canada** ([TSX:AC](#)) for several reasons. With all the uncertainty about the pandemic and therefore Air Canada stock's operations, the potential reward has not been worth the risk, in my opinion.

Not only has Air Canada not yet recovered more than a year after the [market pullback](#), but almost every other stock has outperformed it.

There are a variety of reasons I've cited to avoid the stock and why it could take a while for it to even double and reach its pre-pandemic price of \$50 a share.

So let's look at the numbers exactly and see what Air Canada could even be worth, assuming it could return to pre-pandemic levels of capacity overnight.

What is the most Air Canada stock could be worth today?

Before the pandemic, the company was doing almost \$20 billion in sales annually. Today, sales over the last 12 months are less than \$3 billion. So it's clear the impact that the company has faced over the last year.

Even if the stock could return to those sales levels overnight, Air Canada faces additional headwinds, which could limit the upside of its share price.

For example, before the pandemic, the stock had roughly \$300 million of interest expenses each year. That's now up to around \$500 million. That extra \$200 million will therefore have a significant impact on profitability.

Looking at what it could be worth today, though, is difficult because we don't know the metrics the market will value it at after the pandemic.

For example, Air Canada stock could end up having a higher price-to-earnings (P/E) ratio than it did

before the pandemic as investors are excited about its potential for recovery.

However, it could also have a slightly lower P/E ratio than before if investors think the stock is riskier today and are worried the economy may close back down again before we're completely in the clear.

This is important to keep in mind because different valuation metrics can change the price of the stock without any change in its performance.

Before the pandemic, Air Canada traded with a forward P/E of right around 10.0 times for a few years. So if you assume similar metrics, by my rough calculations, the stock could be worth about \$32 or as high as \$36.

Why it could take years to hit \$50 a share

Not only will Air Canada's sales not bounce back immediately, but even when they do, it will have many headwinds impacting it.

Firstly, as I mentioned before, higher interest expenses weighing on profitability. Second, with more debt, even if Air Canada stock reached the same [enterprise value](#), the market cap would be significantly lower.

And third, even if the market cap could reach the pre-pandemic level of roughly \$12.8 billion, with investors having been diluted over the past year, the share price would be lower anyway.

The company had 263 million shares before the pandemic and 333 million shares today. That's an increase of more than 25%.

So even if Air Canada stock could reach a \$12.8 billion market cap, which is a stretch in my opinion, with today's share count, the share price would be just \$38.50.

That's why I think the maximum the stock could be worth is \$32 to \$36, if it were to return to full capacity tomorrow. And it seems like most analysts covering the stock seem to agree. The average target price among analysts is just \$30.80, offering just over 20% upside.

So even if many things go right for Air Canada, it could be a long time before the stock reaches \$50 a share again, and it almost certainly won't happen by 2022.

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