



Air Canada (TSX:AC): Should You Buy Now?

Description

Air Canada ([TSX:AC](#)) stock has been taking a beating lately. With renewed COVID-19 concerns in Japan, investors appear to be losing confidence that the pandemic is over. The Delta variant of COVID-19 is currently spreading in the U.S. and Canada, leading to some policymakers indicating new health measures this fall. Such a move would negatively impact Air Canada's revenue—which still isn't close to recovering from the devastating hit it took in 2020.

In this article, I'll explore whether Air Canada's stock is worth buying, looking at analyst opinions and other factors that may be relevant to investors.

Analyst calls AC overvalued

At least one analyst covering Air Canada stock believes that it is overvalued.

In a [BNN Bloomberg segment](#), JC Clark CEO Colin Stewart said that AC and other airline stocks were expensive. In the interview, he said:

"... the overall value of the business is basically at its old high, and yet the earnings the business is generating or the EBITDA or free cash flow are nowhere near what they were. So, actually, from a valuation standpoint we would say Air Canada is pretty expensive."

Stewart was referring to the fact that Air Canada's stock has rallied while its business has floundered. As of the most recent quarter, Air Canada was losing more than \$15 million a day, yet its stock price has gone up this year. The end result of this is that the stock's market cap is approaching levels not witnessed since the start of the pandemic, despite the business performing worse than before.

Air Canada diluted its equity with new share issuance in 2020. So while its stock price is less than half its pre-pandemic high, its market valuation is getting close to pre-pandemic levels.

North American travel recovering

Despite Air Canada's valuation concerns, there are analysts who think the stock is a buy.

Earlier this year, **Scotia Wealth** analyst Stan Wong [outlined a bullish thesis on Air Canada](#), citing improvements in North American air travel. Among other points, he highlighted these numbers:

- 1.7 daily airport passengers (up from 100,000).
- An expected 43% recovery in revenue passenger kilometres.
- 2.4 million daily passengers are expected by the end of 2022.

None of these numbers suggest that North American air travel has *fully* recovered. We'd need to get to 2.7 million daily passengers for that to be the case. But the figures do suggest that Air Canada is at least getting over the worst of the pandemic. That may form the basis for future gains in AC stock—provided COVID-19 doesn't rear its ugly head once more.

Canada's latest COVID developments

COVID-19 has always been the question mark hanging over Air Canada. The pandemic was responsible for a 90% decline in Air Canada's quarterly revenue, along with a \$4.6 billion net loss for 2020. Lately, investors have been bidding up the stock on the expectation that the vaccine rollout will improve its recovery prospects.

Indeed, the vaccine rollout has been proceeding smoothly, but a new variant that is immune to the vaccine could severely disrupt all of that. It appears that this is what investors are worried about, as they are selling the stock at a pace not seen since 2020.

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