Air Canada: Is the Stock About to Take Flight?

Description

Air Canada (TSX:AC) is a stock that's been extremely popular among investors ever since it sold off significantly last year at the start of the pandemic.

At the time, the stock dropped by over 75% at its worst point. So, although Air Canada stock still looks cheap, it's already rallied by more than 100% since it bottomed in March with the rest of the market.

However, even with that major recovery, over the last six months, the stock has been rangebound, up less than 15% and only matching the performance of the broader market. That's not what you would expect from a stock that many think is trading undervalued.

The problem with Air Canada is that when the stock fell initially, many were hoping they could just wait out the pandemic, and the stock would recover.

Unfortunately for Air Canada and its investors, though, it's not that simple. You can't just wait it out and expect the stock to recover, because it's been severely impacted by the pandemic and lost a tonne of money.

This is part of what's making it so difficult to put a value on the stock. That and, of course, the uncertainty going forward, which gives Air Canada stock a considerable amount of risk.

Struggling through the pandemic

It's no secret that the pandemic crushed Air Canada. The company saw a 90% hit to its revenue at its worst point and a more than 80% decrease in revenue for more than a year now.

This major impact in its operations caused the stock a tonne of issues and left the company in an unfavourable position.

For starters, Air Canada had to issue roughly $3 billion in long-term debt — a 55% increase in its debt load. That's not all, though. The company also lost roughly $3.5 billion, or 80% of its equity.

The impact on Air Canada stock has been absolutely massive. However, it's not necessarily surprising. It was losing up to $15 million a day at some points.

The impact was so bad that even the $3 billion of debt it raised wasn't enough. The company also had to issue shares to raise capital, which has diluted shareholders.

Before the pandemic, Air Canada stock had roughly 260 million shares outstanding and a book value of roughly $16 a share.

As of its most recent filing, Air Canada had 336 shares outstanding — an increase of roughly 30%. Meanwhile, its book value per share is now just $2.69 — a decrease of roughly 85% since the pandemic began.

It's clearly been impacted heavily and will have these headwinds to deal with going forward. Nevertheless, these impacts have all been in the past. Looking forward, while there is still risk and uncertainty that remains, the future looks optimistic for both the economy and Air Canada stock.

Is Air Canada stock worth an investment today?

Because Air Canada has been impacted so heavily and there is so much uncertainty going forward, an investment in Air Canada today is still highly speculative.

It's impossible to tell how much appetite there will be to travel from consumers. It's even harder to predict what travel restrictions will look like both domestically and internationally for some time.

So, with the stock having lost so much value through the pandemic and only worth about $30 a share today, you could consider Air Canada for an investment.

However, given the current risk-to-reward scenario, in my view, there are far better recovery stocks to consider today.

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