Air Canada Stock (TSX:AC) Loss: Why Investors Should Be Buying Now

Description

Air Canada (TSX:AC) has been a point of contention for pretty much every Canadian. And I don't mean just Motley Fool investors. Whether you're investing in the company, trying to get a refund, or trying to book a flight, pretty much every Canadian has a bone to pick with Air Canada stock.

That bone was dug even deeper during the latest earnings report, with the company announcing it continues to struggle thanks to COVID-19. In fact, shares have dropped since the news and even before. In the last month, shares of the company are down about 20%, as of writing.

But not everyone is so pessimistic about Air Canada stock and its future. In fact, there are a few analysts that are downright bullish! So what gives?

Signs of liftoff

There were a lot of negative points in the Air Canada stock earnings report. I'm not going to lie. The company posted a negative EBITDA of $656 million and an operating loss of $1.133 billion for the second quarter. Cash burn reached about $8 million per day, on average. And while this was all an improvement from last year, it's still a significant loss from 2019 normal levels.

But analysts such as Scotia Capitals' Konark Gupta believe Air Canada stock is due to "sector outperform," raising his guidance this week. Gupta believes the recent loss is due yet again to continued COVID-19 strain, including uncertainty revolving around Canadian travel restrictions (duh). But you also have fuel inflation and equity dilution from government funding.

But here's the positive: Gupta argues that there are plenty of new bookings being made. And it's true! Demand in travel is set to accelerate in the last half of 2021, and into 2022. This is especially true for domestic, the United States and sun destinations, and certain routes across the pond.

In fact, Gupta predicts that $8 million cash burn could shrink to $1 million by the fourth quarter. This could lead to positive cash flow for Air Canada stock for the first time since 2019.

What should Motley Fool investors do?

Gupta believes this increase in sales, especially to the latter three areas of U.S., domestic and sun destinations, will drive recovery for Air Canada stock. It led the analyst to increase his rating to $31 from $28. As a comparison, the average share price among analysts for the next year is $30.21.

That's an average potential upside of 19% as of writing. Gupta believes by 2023, Air Canada stock should be fully recovered and could reach around $40 per share by that point.

Now, this is one analyst's opinion, but broadly speaking analysts do believe the company is set to recover. If only eventually. So for Motley Fool investors looking at Air Canada stock, you have to look at what your goals are and how long you're willing to wait.

If you can leave your shares alone until 2023, now could be an excellent time to buy. Shares trade at a price-to-sales ratio (P/S) of 2.8, making it a steal in that sense.

However, if you need your cash in the next year or two, there is still a lot of volatility ahead for Air Canada stock. The company will have to reinvest and figure out new methods of bringing in revenue. While cargo and short-haul flights are a start, it has a lot of competition in those areas.

So until its long-haul business flights can be secured once more, Air Canada stock may be one to avoid for short-term investors.

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