



Is Air Canada (TSX:AC) Stock a Buy?

Description

Air Canada ([TSX:AC](#)) has not had it easy since the pandemic came along to wreak havoc on the world. The pandemic-induced lockdowns resulted in almost a complete halt to its passenger flights on international and domestic routes.

Air Canada stock declined by over 75% between January and March 2020, as the broader markets declined due to the pandemic. Unlike the rest of the market, Air Canada did not see a miraculous recovery to pre-pandemic valuations in the following months due to unfavourable conditions for the airline sector.

The considerable discount in the airline's valuation has led many investors to consider it an [undervalued stock](#). Investors have been waiting for so long to see Air Canada finally soar again. The airline's latest earnings report was supposed to pump up the stock price rally. However, Air Canada stock is still trading for below \$25 per share at writing.

Considering that its earnings report showed fundamentally positive signs, it should at least start moving towards meeting investor expectations for a full-fledged recovery. I will discuss why the [beaten-down stock](#) is still unable to recover to help you determine whether it could be a worthwhile addition to your investment portfolio.

Why is Air Canada stock trading under \$25 right now?

Air Canada technically has much of what it needs for a runway that can help it soar to the skies again. However, the market does not always respond to positive changes in the situation and can be slow to react. The S&P/TSX Composite Index is at all-time highs right now, but it went through a slight dip in July due to a correction in oil prices.

Other reasons for the slightly bearish conditions could be concerns caused by the Delta variant of COVID-19. Combined with reduced liquidity for investors caused by the stimulus programs being phased out, it could be leading to a slow response from the overall market.

Why I think Air Canada will still recover

Despite the challenges in the market that could be delaying Air Canada's much-awaited recovery, there still is hope for the airline to recover. The Canadian government might ease travel restrictions across the U.S. border later this month and international travel restrictions next month. The reopening of international borders could provide a significant boost to the airline's performance.

Air Canada is also seeing a higher demand for non-essential travel this quarter. The airline's bookings in the second quarter also managed to offset Air Canada's cash-burn rate by 50%. As flights begin to reopen, the airline could start a strong run towards recovery.

Foolish takeaway

Airline companies have been some of the hardest-hit businesses worldwide due to the pandemic. Most sectors have found ways to adapt to the "new normal." Unfortunately, the airline sector does not offer much to inspire confidence in travelers under the current circumstances.

The hopes of vaccine rollouts allowing things to return to the old normal have died down due to variants of the novel coronavirus continuing to wreak havoc. We may have to wait much longer to come out of the woods with this pandemic. However, Air Canada can sustain itself for long enough to make a recovery despite the short- to medium-term challenges.

I think that Air Canada stock could be [a good buy](#) at its current valuation, despite the possibility of some more short-term trouble for the airline stock.

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