



## Air Canada (TSX:AC): Is the Bottom in?

### Description

**Air Canada** ([TSX:AC](#)) stock has been taking a beating lately. Down 8% over the last six months, it has declined amid a broader rally in stocks. Investors are clearly souring on this stock. It's selling off at precisely the same time as other stocks — Canadian, U.S., you name it — are roaring higher and higher.

### So, what's the culprit here?

There are basically two factors at play.

One is the company's recent financials. It lost [\\$4.6 billion in fiscal 2020](#) and proceeded to [lose \\$1.3 billion](#) and \$1.1 billion in the first and second quarters of this year, respectively. At this rate, Air Canada looks likely to exceed the 2020 loss in 2021. The quarterly losses have actually been getting a bit smaller overall. But 2020 only featured three quarters with the COVID-19 travel rules in effect: the first quarter of that year was pretty solid. So, we could see Air Canada do even worse in 2021 than 2020 overall, despite the improving quarterly results.

The second factor is more forward-looking: the Delta Variant. It's a new variant of COVID-19 that's thought to be more contagious than the original variant. It has already led to sweeping lockdowns in Australia and New Zealand. If these measures come to Canada in the fall, then Air Canada's business will take a hit. People tend to travel less when travel advisories and 14-day self-isolation orders are in effect. It happened in 2020, it's still happening to an extent now, and it could accelerate with a Delta outbreak in the fall.

### Air Canada is arguably a cheap stock

Despite all of the above, it's quite possible that the bottom for Air Canada is already in. Yes, the company is losing money and could lose more money in the year ahead. But the stock is already dirt cheap by some metrics — specifically, the price-to-sales ratio.

Air Canada currently trades at only 2.79 trailing 12-month revenue. That's a pretty low multiple these days. It suggests that if Air Canada's revenue can return to 2019 levels and return the company to profitability, its stock will have been a bargain at today's prices. That all depends on the recovery actually happening though. A 2.79 price-to-sales ratio is fairly low, but it means nothing if the company in question never becomes profitable. So, we're going to need to see some real progress from Air Canada before this tentatively bullish thesis bears fruit.

Also, Air Canada is far from an "across-the-board" cheap stock: earnings are negative, and the price-to-book ratio of 15 is pretty high.

## Foolish takeaway

2020 and 2021 have been trying years for Air Canada shareholders. If you timed the bottom perfectly in 2020, you'd have doubled your money by now, but you'd have done just as well with an S&P 500 index fund. Over a 1.5-year time frame, Air Canada stock has been a major loser.

So, is the bottom in?

It's hard to say. But one thing is for sure: if Delta leads to new lockdowns in the fall, you can expect more turbulence from AC stock.

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andrewbutton

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