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

Description

Shares of **Air Canada** (TSX:AC) that recovered sharply from the pandemic lows are under pressure again. The contagious Delta variant of the coronavirus is taking a toll on air travel bookings and, in turn, the shares of the airline companies.

Notably, Air Canada stock has lost more than 18% in value in the last three months. The recent acceleration in COVID-19 cases is negatively impacting new air travel bookings and driving cancellations, which is leading to a drop in airline stocks.

With the Delta variant in the backdrop, let's dig deeper to ascertain whether Air Canada stock is a buy at current levels.

Challenges to persist

Air Canada's financials have shown improvement in 2021. It's worth noting that Air Canada reported operating revenues of $837 million during the most recent quarter, which increased both on a year-over-year and quarter-over-quarter basis. Furthermore, its capacity and net cash burn also improved.

While Air Canada stated that its capacity and net cash burn rate could continue to improve in Q3 on the back of widespread vaccination, I believe the Delta variant is likely to hurt bookings and, in turn, impact its capacity and cash-burn rate.

Notably, a decline in bookings will likely hurt Air Canada's revenues and profitability and limit the upside in its stock price.

Positives to keep an eye on

While the Delta variant of the COVID-19 will likely hurt Air Canada's near-term financials, high vaccination rates and prudent management of cost structure will likely support its growth. Moreover, Air Canada's strong liquidity ($9.8 billion in unrestricted liquidity at the end of Q2) positions it well to navigate the current crisis with ease.

Furthermore, Air Canada's revenue diversification through Aeroplan (its premier travel loyalty program) and cargo business bode well for future growth. The company stated that since March 2020, it operated 10,000 all-cargo flights using wide-body passenger aircraft and temporarily modified aircraft that generated incremental revenues.

Air Canada remains upbeat and expects the momentum in air cargo revenues to sustain. It is converting several of its aircraft into dedicated freighters to leverage the demand from the e-commerce vertical, which is likely to generate incremental revenues.

Bottom line

On its face, the recent drop in Air Canada stock makes it an attractive bet at current levels. Notably, Air Canada stock is trading at a massive discount (more than 50% lower) from its pre-COVID-19 levels, signaling a buy. However, the resurgent virus indicates that airline companies could continue to struggle in the near term.

While the resurgent virus could continue to play spoilsport and negatively impact Air Canada's prospects in the near term, I maintain a bullish view on Air Canada's long-term prospects and expect the stock to deliver outsized returns for its investors.

I believe the ongoing vaccination and reopening of international borders could significantly boost air travel demand and, in turn, support the recovery in Air Canada stock. Further, its strategy to diversify its revenue base and drive efficiency augur well for growth.

Thus, investors with a long-term outlook could consider buying Air Canada stock at the current price levels.

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