Air Canada (TSX:AC): Is the Stock Finally Worth Buying?

Description

Air Canada (TSX:AC) has constantly been on the radar since the pandemic struck, as the shares of the flag-carrying airline plummeted due to the diminished air travel demand and travel restrictions. The airline's share prices have been on a roller coaster, as the ongoing vaccination rates improved hopes of moving past the pandemic, only to be quashed by the highly contagious Delta variant causing more concerns.

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Air Canada stock is down by almost 15% from June 8, 2021. The recent acceleration of COVID-19 cases worldwide has negatively impacted air travel bookings, causing the beleaguered airline industry more trouble.

At writing, Air Canada stock is trading for $24.36 per share. Today, I will discuss the airline stock to help you make a well-informed decision about whether it is an undervalued stock trading for an attractive price or a stock you should stay away from.

Persistent challenges

This year, the airline has seen its financials improve due to its cargo transportation segment and easing air travel restrictions. The airline reported operating revenues of $837 million in its latest quarter, marking an improvement in its year-over-year revenues. Its net cash burn capacity has improved due to better revenues. However, the Delta variant could continue hurting its bookings and impact its financials.

Rising short interest

Short interest has increased on the TSX, and Air Canada is one of the stocks attracting plenty of interest. It is one of the top 20 most shorted companies on the stock market right now.

The commercial airline industry's recovery has been slow due to the pandemic and ensuing restrictions. While Canada has significantly improved its vaccination rates, experts warn that the fourth wave could pose substantial difficulties.

The persistent challenges for the airline sector have increased short interest in the beleaguered airline.

Positives to consider

The challenges brought on by Delta variant cases could hurt the airline's near-term financials. However, Canada's high vaccination rates and better cost management by the airline could continue providing long-term investors with substantial returns. The airline's $9.8 billion in unrestricted liquidity at the end of the most recent quarter positions it well to weather the current challenges with relative ease.

Additionally, the airline's growing focus on its cargo segment could provide it with significant revenue growth in the coming years. The company has converted several aircraft into dedicated cargo planes to capitalize on the booming e-commerce industry. Its rising revenues from the cargo segment could offset some of the near-term losses faced by its commercial passenger flight operations.

Foolish takeaway

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The airline stock has attracted significant interest from short sellers on the stock market. The resurgence of COVID-19 cases due to the Delta variant means that the broader airline industry is likely to continue facing near-term challenges. However, investors with a long investment horizon should not let these challenges faze them.

It is only a matter of time until the world returns to a relative level of normalcy. It remains the dominant force in Canada's commercial airline industry, and it could provide investors with outsized returns in the long run when the recovery eventually happens.

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