Air Canada (TSX:AC) Stock: 3 Huge Risks to Watch!

Description

Air Canada (TSX:AC) stock is trading at a price where it might be a good value. At $24.5, it trades at just 2.5 times sales. Its other value metrics aren't so hot, but its multiple to sales suggests that the stock could be worth more if the company gets back to being profitable soon. For the trailing 12-month period, earnings are negative. If AC can get back to 2019 revenue levels, its stock may have upside. At that revenue level, Air Canada was turning solid profits. So, there is some hope for the future.

The question is whether AC actually will get back to that revenue level. In its second-quarter 2020 earnings release, AC management said that they expected it to take three full years to get back to 2019 revenue levels. That doesn't necessarily mean it will take three years for AC to become profitable again. But it does suggest that the company has a long road to get back to its previous valuation — about $50 per share.

As for how long it will take for Air Canada to get back to that level, it all depends on three main risk factors. One of these risk factors is fairly new, the other two have been hanging over the company ever since March 2020. In this article I will explore these three risk factors to help you decide whether AC is a good buy or overvalued.

Risk #1: The Delta variant

The first risk investors need to keep in mind is the Delta variant. The Delta variant is a new variant of COVID-19 thought to be more contagious than the original. Concerns about the Delta variant led to renewed lockdowns in Australia and New Zealand. Lockdowns and self-isolation orders contributed to a 90% drop in AC's revenue last year. So, the Delta variant is a risk factor that AC investors need to be aware of.

Risk #2: Debt and interest

The next risk factor investors need to be aware of is debt and interest. Air Canada has about $164 million in quarterly interest expenses. That eats up the company's cash quarter after quarter. AC did get a $5.5 billion low interest loan from the government recently, but the interest expenses on aggregate are still large. If revenue doesn't recover rapidly, then they will continue to block the path to profits.

Risk #3: A slow recovery

Last but not least, there's the possibility of a slow travel recovery with or without a Delta variant surge. There are many reasons why people would choose not to travel in 2021. Being unemployed, worrying about new variants, and wanting to avoid areas with outbreaks are just a few of the possible reasons. Air Canada itself said it would take until 2023 to get back to 2019 revenue levels. So, AC shareholders aren't out of the woods yet. The stock could rise from here, but it probably won't rally back to $50 anytime soon.

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