Air Canada: Safe to Buy AC Stock?

Description

Air Canada (TSX:AC) is ramping up capacity to meet surging travel demand. Investors who missed the big rally off the 2020 lows are wondering if this is a good time to buy AC stock.

Demand outlook

The removal of travel restrictions for vaccinated visitors to Canada is an important step to get Air Canada back on its feet. Flights from important markets, such as India, are starting again. Vaccinated visitors from the United States are also making trips.

At the same time, Canadians are booking flights to go see friends and family in other countries. Holiday reservations for warm destinations in the coming winter months are strong. All of this bodes well for Air Canada's revenue stream in 2022.

Business demand, however, is still a wildcard. Salespeople and executives remain largely based at home and a meaningful return to offices isn't expected until early 2022, or even the spring of next year. During the pandemic, companies realized they can get deals done using online meeting platforms. Most people would argue that in-person client visits are better, but it will be some time before everyone is comfortable returning to the old ways.

In fact, it is possible that companies will permanently reduce the amount of travel they approve for staff. Flights, hotels, and meals are very expensive and some global corporations have already slashed their travel budgets. Team gatherings might remain online and salespeople could be asked to mix customer meetings with online and in-person visits.

Business travel is a lucrative market for Air Canada. The expensive seats at the front of the plane are those that generate a good chunk of the profits. If business travel is permanently reduced, investors will have to adjust their profitability expectations.

Oil risk

Jet fuel represents as much as 20% of an airline's expenses, so higher oil prices will put a pinch on margins. **Delta Air Lines** recently warned that rising jet fuel costs will likely cause it to lose money in the current quarter. West Texas Intermediate (WTI) oil trades at US$80 per barrel right now compared to US$36 a year ago.

The IEA says the world isn't investing enough to ensure oil and gas supplies will meet future demand needs. Tight market conditions are already driving up oil prices and analysts expect the upward momentum to continue for some time. Predictions for US$100 oil are becoming more common and some bulls see oil topping the record levels of 2014.

In that scenario, Air Canada would face strong headwinds to return to profitability, even as travel demand surges.

Staff challenges

A near-term challenge for Air Canada and its peers is getting adequate staff to operate the growing slate of flights. Air Canada reduced its employee count by roughly 50% during the pandemic. Government aid plans, concern about safety, and the transition to new careers are all playing a role in staffing shortages.

Should you buy AC stock now?

Air Canada trades near $23 per share at the time of writing. The stock was as high as $31 at one point this year, so investors might think the stock is undervalued and start buying at this level. It is possible a new rally could emerge, but I would stay on the sidelines for now.

Soaring fuel costs are a real headache for Air Canada, especially if it isn't able to pass on the extra costs in the form of higher ticket prices.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media

6. Sharewise
7. Smart News

PP NOTIFY USER

1. arosenberg
2. aswalker

Category

1. Investing

Date
2025/09/10
Date Created
2021/10/13
Author
aswalker