



Why Is Air Canada Stock So Cheap?

Description

Air Canada ([TSX:AC](#)) stock has been down and out for quite some time due to ongoing COVID issues and [fears](#) that cash bleed could worsen if this pandemic worsens, perhaps on a variant of concern (VOC) that's more disruptive than Delta. Indeed, Canada and the U.S. are winding down from the latest Delta-driven wave.

Vaccine passports and additional measures have helped curb the spread, and we may very well be in for a brighter holiday season than last year. Undoubtedly, many families haven't enjoyed the holidays together in this pandemic-plagued era. This could change assuming another VOC doesn't spark a wave in the winter, as it did last year. The difference this time around is that over 70% of the eligible Canadian population has gotten both jabs. While it'd be nice to get those numbers up, it's also worth noting that with flu season up ahead, things could have the potential to be far worse than last year should another COVID wave be on the horizon.

COVID uncertainties remain high for AC stock

Undoubtedly, Air Canada stock has become much [cheaper](#) in recent months. It's all about COVID uncertainties. Still, as Delta peaks, there's room for optimism, especially at around \$22 and change. Why? Even if COVID and the flu dole a devastating impact to some of the more aggressive reopening plays, there are measures in place that could help vulnerable firms such as Air Canada navigate through another storm of COVID without having to go into crisis mode again.

Still, even if vaccine passports and enhanced safety measures wreak havoc on Air Canada's coming quarters, the government is likely standing by, ready and willing to provide support. Another equity stake could certainly be in the cards if a bear-case scenario happens. In any case, Air Canada is unlikely to fall to zero again, given the government's backing.

What's likeliest for Air Canada moving forward?

The likeliest scenario is that Air Canada's enhanced safety measures will help travelers feel safe. Add

the prospect of booster shots and a potential oral treatment like that offered by Merck into the equation, and I think the risk/reward for Air Canada stock is close to the best it's been in years.

There are no guarantees that Air Canada will have a better 2022, just as there's no guarantee that there won't be more VOCs that are as bad as or even worse than Delta. For those willing to ride out the turbulence, though, I think the potential rewards could be enormous over the next five years, as the company makes moves to return to normal. It's unlikely that Air Canada or the airlines will return to 2019 levels of normal, though. Regardless, there is a pathway for Air Canada to move higher, even if the pandemic doesn't go endemic over the next 18 months. For that reason, investors should view Air Canada stock not as some sort of value trap, but as a compelling value to play the longer-term economic reopening.

Air Canada stock: Ridiculously cheap but wildly volatile

The stock trades at just 2.6 times sales. If a bull-case scenario pans out, the magnitude of sales multiple compressions could be enormous. In any case, I view AC stock as too cheap to ignore. Just make sure you're ready for extreme volatility, as the shares of Air Canada boast a stomach-churning beta of nearly 2.5. That makes Air Canada stock more volatile than some meme stocks. Unlike meme stocks, though, you're getting a good shot at promising risk-adjusted returns.

Why is Air Canada so cheap? It all comes down to uncertainties. Nobody knows when the pandemic will end. Regardless, the name looks like a great long-term pick for Canadians bullish on a continued recovery from the insidious coronavirus.

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