Air Canada Stock: Headed to $50?

Description

There's no question that **Air Canada** (TSX:AC) was one of the hardest-hit stocks when the pandemic hit. And unfortunately for the airliner and all the other companies in its industry, they've been some of the longest-impacted stocks as well.

Depending on the industry, companies from all over the economy have had different reactions and recoveries to the pandemic. But at this point, almost every stock has recovered. Even other heavily impacted companies, like **Cineplex**, are seeing the potential for recovery as restrictions get lifted due to the improving economy and vaccination rates for those aged 12 and up sitting at more than 80% across Canada.

Air Canada, though, understandably has to wait, because it is a travel business with tonnes of international operations. There is no doubt that its operations will recover soon, though. Already the airline is starting to increase its flights to different destinations again. So, with Air Canada stock on the verge of a recovery in its operations, is it time to buy the stock? And can it get back to its pre-pandemic price of $50 a share?

A lot has changed in the last 18 months

One of the biggest issues Air Canada faces is that while its operations have mostly been on hold the last year and a half, the company hasn't just been waiting around to ramp operations back up again. In the meantime, it has been losing tonnes of money while it has almost no cash flow coming in.

All of this money it's lost, the company has had to finance it somehow. So, over the course of the last year and a half, it has taken on a tonne of debt in addition to issuing more shares and diluting shareholders. This alone would significantly impact the company going forward and play a role in hindering its recovery. But that's not the only new issue the stock faces.

As its business ramps back up in the coming months, Air Canada stock could face a myriad of increasing costs and other headwinds. The company, of course, will have more interest expenses to finance all its debt. Plus, it will likely have higher cleaning and COVID-related costs. And on top of all that, fuel prices, one of the biggest expenses airlines have, are soaring at the moment.

All these higher costs will make it a lot tougher for Air Canada stock to recover. Plus, it will be especially difficult to recover, as it faces heavy competition from other airlines that have been in a similar situation over the last year.

Could Air Canada stock return to $50 anytime soon?

While the stock looks like it could finally recover soon, the significant headwinds the company faces these days will make it a lot harder to rally, at least initially, when its sales and operations recover.

Although the stock price of Air Canada is less than 50% where it was from before the pandemic, when you take into account all the debt the company has, investors are actually buying it for a higher enterprise value (EV) than they did back before the pandemic.

At the end of the fourth quarter of 2019, Air Canada had a market cap of $11.8 billion and net debt of $3.4 billion for an enterprise value of $15.2 billion. Today, while its market cap is significantly lower, at $8.3 billion, its net debt is much higher, at roughly $7.7 billion, leading to an EV of $15.9 billion, slightly more than it was worth before the pandemic.

Plus, in addition to the fact that the whole company is worth more than before, you'll notice that the equity value isn't that cheap either. While Air Canada's stock price is down more than 50% from where it was before the pandemic, its market cap of $8.3 billion today is only down about 30%, showing how much shareholders have been diluted.

This goes to show that Air Canada stock is not as cheap as it looks. So, with the company still facing numerous headwinds, I wouldn't be expecting a rally anytime soon. And I certainly wouldn't expect to see the stock anywhere near $50 a share for some time.

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