Air Canada (TSX:AC) Stock: Should You Buy Now?

Description

Air Canada (TSX:AC) continues to trade around $24 per share, hardly managing to move beyond that since the beginning of the year. This comes even after a strong earnings report and promising future outlook. It has many Motley Fool investors wondering if Air Canada stock is undervalued.

Air Canada Q3 earnings

Air Canada stock reported strong third-quarter earnings. The company brought in $2.103 billion in operating revenue, with net cash flow of $153 million. That's $520 million higher than the net cash burn guidance provided from the last quarter, according to the earnings release.

The increase in air travel, of course, led to the successful quarter. In fact, seat capacity was up 87% compared to the same time last year. Furthermore, the improving vaccination rates and fewer restrictions means the world is finally ready to travel — especially at a time of year when those who haven't seen loved ones in perhaps two years can be together. It was the best quarter the company had since the beginning of the pandemic.

Air Canada Q4 and 2022 outlook

The company should receive a boost from the increase in airline travel, which also will help its net cash burn. In fact, the company stated it would no longer be providing an outlook for net cash burn in the future. This is significant news, as it shows management is confident it can start returning to positive cash flow.

However, the pandemic continues to weigh heavily on whether Air Canada stock can provide a 2022 outlook. In this sense, it was able to plan an increase in seat capacity by 135% compared to Q3 2020. That's a decrease of 47% from 2019 levels.

This seating capacity will continuously be adjusted, but it's still too early to provide a 2022 outlook. The pandemic continues to rage across the world. On top of that, inflation and cost pressures could impact the company. So, it's too soon to provide any further guidance.

Dropping government aid

But another positive piece of news was the confirmation that Air Canada stock dropped the remaining government aid. After begging the government for help during the pandemic, the company received $5.395 billion in government aid. However, after using $1.4 billion for refunds, it's returning the remainder.

This means Air Canada stock not only can return it without a penalty. It also means the government no longer owns a 6% share in the company. Furthermore, it found its own financing that should benefit the company moving forward.

Air Canada stock signed on to longer financing of $7.1 billion over the next few years. That's on its own terms — not the government of Canada's. This is a far better scenario for Air Canada and Motley Fool investors interested in the stock.

Risks

Air Canada sock seems to be hitting its stride towards pre-pandemic levels. In fact, management stated in earnings that this is what it is transitioning towards. However, the company remains volatile for several reasons.

First, Air Canada stock could be affected by inflation, causing ticket prices to climb. Further, oil prices are also volatile, creating more cost pressures. This could all weigh on Air Canada stock, perhaps causing it to peak its revenue too soon. Plus, shares have remained stagnant for almost a year.

Should you buy Air Canada stock now?

Air Canada stock traded at $50 per share before the pandemic. Air travel continues to rise, and Air Canada continues to hold the market share in this country. Not only is personal travel increasing, but business travel is as well. This is the company's bread and butter.

Air Canada stock doesn't look like it will suddenly jump to $50 per share overnight. However, it remains stable, continuing to grow its revenue and slowly but surely increasing investor confidence. If you're a long-term investor, now could be a good time to pick up the stock. So, if you have some cash you want to put to work today, Air Canada stock could be a great long-term hold for Motley Fool investors willing to wait.

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