



Can Air Canada Stock Finally Rebound in 2022?

Description

One of the biggest stories and hardest hit stocks from the pandemic as we approach 2022 continues to be **Air Canada** ([TSX:AC](#)). The airline saw one of the biggest declines when the pandemic initially started and has never come close to recovering.

Even in the latter half of 2021, as case counts were dropping and vaccinations were rising in North America, the pandemic was not under control in other parts of the world which meant that global travel companies continued to see a major disruption in their operations.

And now, with the resurgence of the virus and a new strain rapidly circulating, travel plans and flights are once again being cancelled.

So will Air Canada stock finally rebound in 2022?

Can Air Canada stock rebound in 2022?

To answer the question of whether it can rebound depends on your definition of a rebound. Could we finally start to see the pandemic wind down, allowing Air Canada stock to begin to rally and post a positive year? I think that's possible. Could Air Canada rally back to its pre-pandemic price of more than \$50 a share? I think that's highly unlikely.

The most important thing that investors need to understand about an investment in Air Canada is that it's considerably risky because the company controls very little of its destiny at the moment.

This adds a tonne of uncertainty which is why it's so risky. With almost every other investment, you are betting that the company's brand, its operations and its management team are high enough quality to grow your investment.

With Air Canada, you're still betting on all that, but you're also betting that the pandemic will wind down eventually, and it can return to business as usual. And as we've seen recently, no matter how much progress we make with vaccinations, there is always the risk of another surge of the pandemic.

That brings me to the second most important thing to understand about Air Canada stock's situation today. The longer it remains impacted and struggles to make a profit, the more its fair value continues to fall.

That's part of why I think it's highly unlikely Air Canada rallies to \$50 a share in 2022. It has already lost so much value through the first two years of the pandemic.

What is Air Canada's fair value today?

At the end of 2019, prior to the pandemic, Air Canada stock had an [enterprise value](#) (EV) of \$16.3 billion. That consisted of its [market cap](#), roughly \$12.8 billion, and its net debt, roughly \$3.5 billion. Meanwhile, in 2019 Air Canada stock posted EBITDA of approximately \$2.5 billion, giving it a trailing EV/EBITDA ratio of 6.6 times at year end.

Today, Air Canada, although its share price is down by almost 60% from its pre-pandemic price, its EV is roughly \$15.7 billion, less than 5% below its pre-pandemic value. That consists of a market cap that's down from \$12.8 billion prior to the pandemic to \$7.7 billion today. Its net debt has also grown considerably, up to \$8 billion from \$3.5 billion.

Furthermore, its EBITDA over the last 12 months is negative, with the company posting a loss of more than \$3 billion. And even its estimated EBITDA over the next 12 months is just \$1.7 billion, which would give Air Canada stock a forward EV/EBITDA ratio of 8.98 times.

So, it's clear that although Air Canada stock looks cheap, the company is actually quite fairly valued today.

Where can Air Canada stock get to in 2022?

If the pandemic can finally get under control and Air Canada stock's operations can begin to return to 2019 levels of capacity, the stock should be able to see a strong rally.

While it is already fairly valued today, as optimism returns to markets, the stock could likely see a significant boost. Although it will likely take years for the company to pay down the debt and recoup the losses it posted through the pandemic.

So, if you're wondering whether to invest in Air Canada stock in 2022, it certainly has the potential to rally. But with so much uncertainty that continues to persist, the potential rewards may still not be worth the risks.

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