



## Should Air Canada (TSX:AC) Stock Be on Your 2022 Buy List?

### Description

**Air Canada** ([TSX:AC](#)) took a big hit in 2020 and delivered a volatile performance for shareholders in 2021. With the Omicron COVID-19 variant now spreading across the globe, investors are wondering if AC stock is a good contrarian buy for 2022.

### Air Canada stock price

Air Canada trades near \$21.50 per share at the time of writing. That's down from the 2021 high around \$31 and way below the \$51 per share AC stock reached before the arrival of the pandemic. Investors who bought the stock below \$15 last year are already sitting on decent gains, and those who missed the big rally in 2021 might be tempted to think AC stock is now [undervalued](#).

### Opportunities

The airline industry started to see strong demand return in the summer of 2021 and through the end of the year before the emergence of the Omicron variant. Winter bookings soared in recent months, as people planned to return to their favourite holiday locations.

New travel restrictions and strict COVID-19 testing requirements have likely slowed the recovery, and investors will need to pay close attention to the Q4 2021 and Q1 2022 results to see if cancellations jumped through the end of the year and in the first three months of 2022.

The early indications suggest Omicron is causing fewer people to land in the hospital. Whether this is due to relatively high vaccination rates or immunity built up from previous exposures is still being determined. However, if this trend holds up, and it turns out that Omicron hits healthcare systems less severely than previous variants, the surge could be short-lived, and the world travel industry might be back on track by spring.

It is possible that the pandemic will effectively be over by the second half of 2022. This would likely put a new tailwind behind Air Canada stock, as the company expands its capacity to meet rising demand.

## Risks

Current travel restrictions and concerns about the Omicron variant might keep potential holiday travelers home until the summer. At the same time, business people won't be making regular trips to visit customers until the pandemic is over. Some analysts think business travel will never return to 2019 levels. This is a problem for Air Canada and the broader airline industry.

Expensive seats in business class are very profitable for the airlines and historically contributed as large chunk of the revenue and earnings. If business travel is permanently reduced due to the adoption of online meetings, investors will have to adjust their profit expectations for Air Canada and its peers in the coming years. Lower profits and uncertain growth could lead to lower price-to-earnings multiples investors are willing to pay for the airline stocks.

Fuel costs pose another risk to the return to profitability. WTI oil trades near US\$75 per barrel right now, and pundits are increasingly calling for a surge back to US\$100 per barrel at some point in the next few years, as demand could outstrip the oil industry's ability to get new supply to market.

Higher oil prices translate into more expensive jet fuel, and since jet fuel represents 15-20% of an airline's expenses, the surge in the price of oil could meaningfully offset the benefits from a rebound in air travel. To make matters more challenging, Air Canada faces a number of new low-cost competitors that are expected to put pressure on ticket prices.

## Should you buy Air Canada stock now?

Investors who are of the opinion that business travel will bounce back and the price of oil will stabilize at a lower price than where it is today might want to start nibbling on Air Canada stock. It is certainly possible that a wave of enthusiasm for the airline stocks could emerge in 2022 and send the share price back to \$30.

That being said, investors who are concerned about the risk of higher oil prices and the lingering impact of the pandemic on business travel might want to stay on the sidelines until there is more clarity on how things will evolve in the next six months.

There are other unloved stocks in the **TSX Index** that appear undervalued right now and could deliver big gains in the coming year.

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