Air Canada (TSX:AC) Stock Is a Buy for These 3 Reasons

Description

Air Canada (TSX:AC) stock might have been a frustrating investment for a large number of common stock investors in the last two years, as it fails to break above $30 per share. However, patient investors can be rewarded handsomely. If you prefer to make a good profit sooner, AC stock is also a stock that's volatile enough for short-term trading as well. Here are three reasons to buy AC stock.

Analysts are generally bullish on the Air Canada stock

Air Canada stock was one of Bruce Murray's past top stock picks on *BNN*. Since the airline stock is down about 25% from where he recommended it, AC stock could be even more attractive now.

> "When we recommended it, we expected summer 2021 to open up for vacations. This year, there's the Russian invasion scaring some travellers. We hope the war will settle down. We target $45 for Air Canada stock. Surging oil prices are also impacting airlines. At these low prices [$20 and change per share], he would buy, then later sell at higher prices."
> *Bruce Murray, CEO of The Murray Wealth Group*

When asked if Air Canada is a safe pandemic recovery stock last month, Stan Wong answered:

> "AC stock got stuck around $25-26, so we sold at a technical resistance, taking profits. With travel picking up, this will make sense. Looking out two to five years, the stock should perform well."
> *Stan Wong, portfolio manager at Scotia Wealth Management*

AC stock: A flexible investment for investors

As Bruce Murray and Stan Wong indicate, Air Canada stock is a flexible investment. Depending on the kind of investor you are, you could do short-term trades, targeting for profits within a year, or be a patient investor and hold it for a long-term investment of two to five years, aiming for the $45 range.

According to Yahoo Finance, 16 analysts have a 12-month consensus price target of $29.97 per share on the stock for 44% near-term upside. However, as Stan Wong highlighted, AC stock has technical resistance in the $25-26 range. So, practically, it may make more sense to take profit in that range for short-term trades. The volatile stock does seem to show support at the $20 level. So, if you could buy at about $20 and sell at about $25, you'd book price gains of approximately 25% each time. This would be wonderful gains versus the long-term average market returns of about 10%.

However, if the stock breaks below $20, you should have a plan B — either you seek to hold for long-term investment (and potentially add more shares at lower levels) or set up a stop-loss order.

Many analysts believe that at normalized levels (i.e., when air travel resumes to normal levels), AC stock should trade at the +$40 range. If you are able to pick up AC shares at about $20 and sell at even $40-45 in five years, you're looking at annualized returns of 14.9-17.6%. Of course, if Air Canada stock recovers more quickly to that level, your total gain would be the same (i.e., roughly double your investment), but your annualized return will increase!

Air Canada is an essential service

Air Canada is an essential infrastructure. Its airline services aren't going away. Otherwise, it wouldn't have received government aid during the last two crises. During the health crisis of the COVID-19 pandemic and around the time of the global financial crisis of 2007/2008, the Canadian government came to Air Canada's rescue with bailout packages.

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