Air Canada Stock: At What Point Is it Actually Cheap?

Description

Motley Fool investors have likely been seeing **Air Canada** (TSX:AC) recommended as a cheap stock for a while now. But the problem is, Air Canada stock remains at levels far below where it was before COVID. Granted, we're still entrenched in the pandemic, but there are even more problems the company has to deal with now.

default watermark

Today, I'm going to go over these issues, and discuss whether Air Canada stock is actually cheap. And if not, at what point would the company become a buy once more?

One step forward, two steps back

Just when things look like they're improving for Air Canada stock, it's hit with another problem. Most recently, this came with a combination of pandemic restrictions and the Ukraine crisis. After lobbying the government for what seems like forever, finally restrictions were eased for travellers. Rapid tests are now an option to return to the country, and no need to quarantine if you're fully vaccinated.

But then, the Ukraine crisis hit. This caused another disruption for Air Canada stock. Not just in terms of not being able to land in Ukraine or Russia, but the need to avoid the air space entirely. The company continues to try and return its destinations to some type of normalcy. But should Russia expand into Europe even more, this could put another wrench in those plans.

Don't forget fuel

I'm sure Motley Fool investors are already quite aware of the increase in fuel prices. Who isn't? With a barrel of crude oil surging past US$100, it's not just your car that's feeling the pinch. It's airlines too. This could lead to an incredibly rough patch for Air Canada stock and others.

Why? When jet fuel costs more, the cost of a plane ticket go up. Air Canada continues to try and find cheap ways to get customers back on board, but with these inflated prices it's eventually going to trickle down to the consumer. So even with the improvement of sentiment around travel, the cost of fuel will certainly hurt the company in the near future.

Cheap, or not?

Now it has to be recognized that Air Canada stock has taken a hit from all this. Shares now trade at around $20, as of writing. And it's questionable whether that's a steal these days or not. Luckily, analysts have been weighing in.

It cannot be denied that there is a major increase in travel demand. Bookings reached 65% of pre-pandemic levels last November and October. And now that restrictions have eased, sun destinations are proving a prime target. There's also the soon-to-be summer rush.

The company's fourth quarter was quite promising, with revenue up 230% year over year to $2.7 billion, beating estimates. Adjusted EBITDA reached $22 million and also beat estimates of analysts that still expected a loss. As Canada continues to catch up to other countries in terms of travel policies, there should be at least some medium-term growth. The price of fuel, though, will certainly be something to watch.

Bottom line

default watermark

Analysts give Air Canada stock a target price of $29 as of writing. In that respect, it's cheap at today's share price of $20. It also sits near oversold territory at a relative strength index of 38. Furthermore, with sun destinations the company's focusing on, its Aeroplan loyalty plan well in place, and cargo trends increasing, the Ukraine crisis shouldn't hurt the company's bottom line that much.

Interested Motley Fool investors should be on the lookout for further news on the company's investor day on March 30. This could be the major sign that Air Canada stock is about to launch once more, or drop back into oblivion.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. alegatewolfe
2. jguest

Category

1. Coronavirus
2. Investing

Date
2025/08/17
Date Created
2022/03/12
Author
alegatewolfe

default watermark

default watermark