



3 Reasons to Pass on Air Canada Stock Today

Description

Air Canada ([TSX:AC](#)) has always been a popular stock. Even before the pandemic, the company was an excellent investment for years, as it performed its turnaround and executed well, taking advantage of major growth in the travel industry through the 2010s.

However, the 2020s haven't started off very well for Air Canada stock, which has seen its operations impacted significantly by the pandemic. At the worst point, Air Canada's revenue was down 88% from its pre-pandemic levels. And for five consecutive quarters, its revenue was down over 80% from where it was pre-pandemic.

Over the last two years now, the stock has staged multiple rebounds, only to hit resistance levels or have new shutdowns and variants cause it to sell off again. And now, despite travel starting to pick back up again as many restrictions are now being lifted, over the last few weeks, it has sold off quite significantly, making many investors take a second look.

Air Canada stock certainly could rally back to \$25 in the short term if volatility and uncertainty start to ease. But whether or not Air Canada is a high-quality, long-term investment is a different story.

Here are three reasons to consider why I'm passing on Air Canada stock today.

A full recovery will take years to materialize

While there is much less uncertainty for Air Canada stock today than there has been for all of the pandemic, a full recovery could still be years away.

The company will definitely be able to recover most of its domestic sales and travel to the United States, especially as rules and restrictions continue to drop, such as rules about mandatory testing entering the country, quarantines and more.

However, the same can't be said for every country around the world. And with several different restrictions and complications in different areas of the world, and the potential for more travel bans if

there's another new variant discovered, Air Canada runs the risk of going years before seeing its international segment recover fully.

The stock is not that cheap, and it's carrying tonnes of debt

Another major reason I'd pass on Air Canada today is that the stock is not as cheap as it may seem. Despite its share price being down heavily from its pre-pandemic price, when you consider the debt that it's taken on and the new shares it's issued to raise capital, it's far less of a bargain than it looks like.

At the end of 2019, before the pandemic was even on the radar, and Air Canada was still fairly valued based mostly on its expected sales and income going forward, the company had an enterprise value of \$16.3 billion. Today, despite the share price being down by roughly 60% from its pre-pandemic price and with much more uncertainty than 2019, Air Canada's enterprise value is \$15 billion — a less than 8% decrease.

So, with a full recovery potentially years away, and Air Canada stock trading with an enterprise value that's nearly the same as what it was before the pandemic, I think the stock's upside is limited — at least until it can start to earn positive cash flow consistently and begin paying down debt.

There are companies that offer more potential than Air Canada stock

When you consider the headwinds that Air Canada faces and the fact that its stock doesn't even offer that much [value](#) for investors today, in my view, it's not worth an investment.

Plus, there are several stocks offering better opportunities for investors today, including a company like **Corus Entertainment** ([TSX:CJR.B](#)).

Not only is Corus already profitable and paying an ultra-safe dividend, but the stock is also considerably cheap, making it a much better investment than Air Canada.

At its current price, Corus trades at a forward [price-to-earnings ratio](#) of just 5.9 times and a forward enterprise value (EV) to EBITDA ratio of just five times. Meanwhile, Air Canada's not expected to earn positive earnings per share until 2023, and its forward EV to EBITDA ratio is eight times.

So, with Corus being a stock that has less uncertainty, similar upside in the share price over the next five years, and is already returning capital to investors today, it's just one of many Canadian stocks I'd consider over Air Canada today.

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