ALERT: 3 Reasons to Buy Air Canada Stock

Description

Air Canada (TSX:AC) is Canada's largest commercial airliner. Shares of this top Canadian stock have dropped 6.7% in 2022 as of early-morning trading on March 14. Its shares have plunged 30% in the year-over-year period.

Last year, it looked like the airline industry would benefit from the vaccine drive and the broader reopening. Unfortunately, the rise of the Omicron variant meant that the COVID-19 pandemic would linger and continue to punish key industries. Today, I want to discuss why now may be the perfect time to jump on Air Canada stock as we move into the spring season. Let's jump in.

Rising fuel costs could give a boost to airliners

Air Canada entered 2020 stronger than it had ever been in its history. It had consecutive record earnings reports and looked virtually unstoppable. The company and its peers benefited from low fuel prices in the late 2010s. Now, fuel prices have surged to record highs due to the ongoing Russia-Ukraine war and the Western sanctions that have fallen on the aggressor.

The cost of air travel is certain to rise in this environment. This will put added pressure on consumers going forward. However, it could generate improved sales for Air Canada and its peers in the near term. The urgency to book cheap flights before the new fares set in may end up being a positive for the top Canadian airliner.

Higher fares will inevitably follow the rise in fuel prices, though airliners are holding off for as long as they can. When that increase does come, investors should not take it as a sell signal. Indeed, these entities should continue to benefit from the full reopening.

Air Canada should benefit from increased travel demand

The International Air Transport Association (IATA) stated that the air travel industry struggled to regain momentum in January 2022 compared to December 2021. However, demand for air travel was up 82%

compared to the previous January. Meanwhile, domestic and international travel were up 41% and 165%, respectively, from the prior year.

Better yet, North American airlines posted a 148% traffic increase in January compared to 2021. The policy transition from governments to treat COVID-19 as endemic should provide a significant boost to Air Canada and its domestic and international competitors. Passenger traffic is still far below pre-COVID-19 levels, but investors should be encouraged by recent developments.

The Russia-Ukraine war is expected to have an impact on international travel. However, investors should still safely count on continued traffic growth for Air Canada.

Shares of Air Canada look undervalued right now

Back in November 2021, I'd looked at some of the top discounted Canadian stocks. Air Canada deserves to be in that conversation in the middle of March 2022. The company has very promising growth potential, as its recovery from the pandemic gets underway. Moreover, it is trading in favourable value territory compared to its industry peers. Its shares have hovered around technically oversold territory for most of this month, even dipping below an RSI of 30 in early March. I'm still looking to snatch up Air Canada today.

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