



Air Canada: Is \$30 a Fair Price for AC Stock?

Description

More than two years after the start of the pandemic, and **Air Canada** ([TSX:AC](#)) stock continues to see a tonne of volatility in its stock price.

The stock has been impacted by several changing factors, including numerous re-openings and shutdowns. There have been positive developments like the vaccine that have led to a rally, only to soon have negative developments, like a new COVID strain, erase all those gains.

And while 2022 looked like it might finally be the year that Air Canada makes a significant recovery from the pandemic, now the war in Ukraine plus higher energy and jet fuel prices are headwinds that AC stock faces. And, of course, the pandemic still does pose a threat and will impact the timeline of a full recovery.

Nevertheless, with the stock moving all the time, and with the pandemic finally winding down, given all the pent-up demand to travel, there is a real opportunity for investors when they buy Air Canada cheap.

So, you may be wondering how high the price can rally to and if \$30 is a fair price for AC stock?

What price is fair for AC stock?

It's important for investors to remember that markets are forward-looking. So, anytime there looks like there's an opportunity for Air Canada's business to recover, it's not surprising to see AC stock rally.

That's also part of why it's so volatile. Investors try to anticipate a recovery, but then a significant negative development happens and the stock loses all of its recent gains. This has happened multiple times since the pandemic began. But now, with the pandemic winding down, Air Canada could finally see a meaningful recovery.

What's important to understand, though, is that Air Canada may have upside, especially in the near term, as forward-looking investors buy ahead of this anticipated recovery in 2022. However, its valuation will cap its rally at a certain point, at which point the price of Air Canada stock will largely

depend on how quickly it can pay down its debt.

So, it's no surprise to me that the average analyst target price right now is just above \$30. If you look at the numbers and Air Canada's financials, it seems as though \$30 is as high as AC stock can get to in the short term. After that, the company runs into problems with its valuation.

Air Canada's debt will likely weigh on the recovery in its stock price

The [enterprise value](#) is a measure of the total value of a company. It includes how much the [market cap](#) of the company is but also how much debt the company owes. So, although AC stock, which trades at roughly \$24.50 a share today and is more than 50% below its \$50 pre-pandemic share price, its enterprise value is actually roughly in line with what it was prior to the pandemic.

During the two years that Air Canada's operations were impacted, it lost a tonne of cash and had to take on a large sum of debt as a result.

So, if AC stock were to hit \$30 soon, before it has the opportunity to chip away at that debt level, it would have an enterprise value of roughly \$18.4 billion, which would be more than 10% higher than where it was valued at the end of 2019, just prior to the pandemic.

Ultimately, it looks like it will take some time for the stock to rally significantly past \$30 in the next couple of years, as the company pays down its debt and sees a full recovery in its operations.

Earlier this week, Air Canada issued new guidance, which estimates it will earn \$3.5 billion of free cash flow over the next three years, and which it can use to pay down a significant portion of that debt.

That's certainly positive and shows Air Canada's business is ready for a recovery. However, it also shows that it will take some time. Therefore, unless something significant happens, \$30 might be the peak that AC stock trades at over the next few years.

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