



## Air Canada Stock Price: Is \$25 the Top in 2022?

### Description

Ever since **Air Canada** ([TSX:AC](#)) stock initially sold off and the price fell by more than 50%, investors have been watching and waiting for its eventual recovery.

More than two years after the pandemic began, though, that recovery has not materialized. In fact, Air Canada continues to see its stock price trade range-bound as it has for some time now.

It seems as if every time the airline stock starts to gain momentum and rally to \$25 a share, it hits a resistance point and begins to sell off again.

So you may be wondering why it hasn't been able to gain in value for some time despite the worst of the pandemic being behind us. You also may be wondering why it hasn't managed to gain more momentum, despite a strong resurgence in travel we're seeing right now.

So let's look at what's holding the stock price of Air Canada back and whether it can rally significantly past \$25 in 2022.

## What's going on with the stock price of Air Canada?

Although Air Canada and its airline peers have waited years for travel to recover meaningfully as it is today, the stock, unfortunately, is still facing some stiff headwinds.

First, due to sky-high inflation and now the war in Ukraine, energy prices have gone through the roof, making jet fuel — one of the largest costs that airlines have — a lot more expensive.

So, either Air Canada's margins will be impacted by these rising costs, or it has to try to pass those costs on to consumers through higher ticket prices, which could be difficult as it competes with its peers to lure back customers.

But while these higher fuel prices are certainly weighing on Air Canada and its stock price, they're hardly the reason why the stock has yet to start a meaningful rally. Instead, it looks as though Air

Canada's hefty valuation is what's keeping its stock price in check.

But if the stock price of Air Canada is still more than 50% below where it was just before the pandemic, you may be wondering how its valuation could be holding the stock back?

## Air Canada is not as cheap as it looks

As of Wednesday's close, Air Canada stock had a price per share of \$23.50. That gives the stock a [market cap](#) of roughly \$8.4 billion, and when you include all its net debt, the stock has an enterprise value (EV) of roughly \$16.1 billion.

Here's where Air Canada stock is more expensive than its share price makes it look. Although the share price of \$23.50 today is much less than the more than \$50 a share Air Canada stock traded at just prior to the pandemic, its market cap and EV, which are much more important, are nowhere near as cheap.

In fact, if you were to just look at Air Canada's market cap of \$8.4 billion today, that's only 35% less than it was at the end of 2019. Furthermore, its EV of \$16.1 billion today is only 1% less than it was at the end of 2019. So although its share price looks cheap, the total value that you're paying to buy Air Canada stock is roughly the same as it was prior to the pandemic.

## When will Air Canada's stock price rally?

When you realize the value that Air Canada stock trades at today, it's a lot less surprising that the stock has hardly budged despite a resurgence in travel. So while it's impossible to predict how Air Canada stock will perform in the short term, investors could be waiting for the company to begin earning positive cash flow and paying down that debt.

Until Air Canada's valuation falls, or until it can meaningfully increase its earnings, it's likely the stock will continue to tread water. Right now, Air Canada is not even expected to be profitable in 2022. Furthermore, the stock still has a forward EV to [EBITDA](#) ratio of 10.4 times. That's considerably more than what it was trading for prior to the pandemic, at roughly 4.1 times its next 12 months' expected EBITDA.

Therefore, until it can grow its earnings, lower its debt or do both, \$25 might be the limit for Air Canada's stock price.

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#### **Date**

2025/06/29

#### **Date Created**

2022/04/14

#### **Author**

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