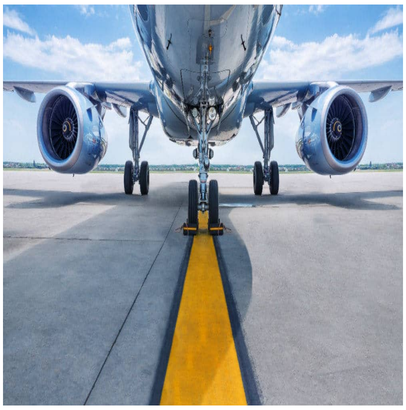

Is Air Canada (TSX:AC) Stock Ready to Soar?

Description

Air Canada (TSX:AC) is the leading commercial airline in Canada. The flag-carrying airline was soaring at great heights before the pandemic came along to disrupt every aspect of our lives, particularly air travel. The company's performance was excellent in the pre-pandemic era. Its operational cash flow was strong, and the rising demand for air travel made the company and its shareholders very happy.

However, the world saw a drastic change since the global health crisis came along. Air Canada struggled immensely due to the pandemic's impact, and it is still recovering from the effects as the world moves into a post-pandemic era. Air Canada stock trades for $22.38 per share at writing, down by almost 56% from its pre-pandemic levels.

Is it an undervalued stock you should buy right now, or is there more uncertainty ahead? Let's take a better look at what the picture looks like right now.

Fuel price hikes could eat into its margins

Air Canada's exceptional management discipline allowed the company to stay afloat during the worst time of the pandemic. The rising demand for air travel as it becomes safer for people to fly to other countries right now should improve its financial performance. Unfortunately, things will likely take a turn for the worse, and there is nothing Air Canada's management can do about it.

Oil prices are rising worldwide, and jet fuel accounts for a substantial portion of Air Canada's operational expenses. Oil prices are around $120 today, representing over 90% of the airline's operational expenses. It is a massive surge since 2019 when fuel prices accounted for roughly 22% of Air Canada's operational expenses.

Air Canada can cover the additional expenses by increasing its airfare. Unfortunately, more expensive flights could spell trouble for air travel demand. Historically high inflation rates have already diminished purchasing power. Canadians could not travel due to restrictions during the worst period of the pandemic. Higher ticket costs and inflation rates could be the new reason for their inability to travel.

A new threat is looming

Rising inflation rates and higher fuel costs are not the only two reasons Air Canada investors might have to worry about. The current macroeconomic environment points toward the realistic possibility of a recession hitting the market. Recessions result in diminished buying power.

People have to struggle to make ends meet and afford essentials during recessions. Traveling anywhere for a vacation would be far from anyone's agenda if a recession hits Canada.

The Bank of Canada (BoC) is introducing several interest rate hikes in a bid to cool down inflation rates. However, higher interest rates also make things challenging for consumers by reducing their borrowing capacity.

Foolish takeaway

Air Canada's excellent short-term performance might not be enough to make it a good buy at current levels for value-seeking investors — at least not in the short term. Air Canada may face more difficulties in the coming weeks until the macroeconomic factors out of its control become more favourable.

It might be worth waiting on the sidelines and waiting for things to settle down before allocating money to the beleaguered airline stock.

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