



## Market Correction: Should You Buy Air Canada Stock Now?

### Description

The correction in the **TSX Index** is driving many Canadian stocks to new 12-month lows. Investors who missed the rallies in some popular beaten-up stocks are now wondering if the selloff is overdone. Let's take a look at **Air Canada** ([TSX:AC](#)) to see if the stock is [undervalued](#) today and deserves to be on your buy list.

### Travel trends

The end of most pandemic travel restrictions is in sight and airlines are reporting seat demand approaching 2019 levels. In this scenario, one might expect the price of Air Canada stock to soar, but the share price is actually down from \$28 per share at this time last year to \$18. The stock hasn't been this low since late 2020.

Why?

Soaring oil prices are a big reason for investor concern. Jet fuel is very expensive due to the high cost of crude oil and the lack of refinery capacity to produce more end products such as jet fuel, gasoline, and diesel fuel. This situation is expected to persist, so Air Canada will have to keep raising ticket prices and hope that travelers will be willing to pay the higher fees.

### Low business travel

Vacationers are eagerly booking the economy seats, but most business travelers are still working from home and happy to conduct meetings online. Who can blame them, with international travel through Toronto being such a nightmare this year?

The longer the problem persists, the more likely it is that people will simply stay home. Air Canada historically relied on business travelers to generate the bulk of the profits, especially on long routes. If business travel doesn't recover to previous levels, the eventual multiple investors are willing to pay for Air Canada stock will likely be lower than before the pandemic.

## Staff issues

On the corporate side, airlines that slashed staff during the pandemic are having a tough time getting these people to come back to work, and the ones who do sign up want better pay. Air Canada cut more than half of its employees, roughly 20,000 jobs, during the worst of the downturn. Many experienced people have moved on to other careers. This means the company has to spend significant funds to recruit and train new staff and then try to keep them from leaving.

## Impacts of inflation and high interest rates

Inflation is hitting households hard. Food, fuel, insurance, and other essential expenses are soaring. This could hit the recovery in travel demand, as families cut discretionary spending, such as trips, to be able to survive.

As a measure to fight inflation the Bank of Canada and the U.S. Federal Reserve are rapidly increasing interest rates. Soaring interest rates and the surge in bond yields will drive up mortgage costs. This is an extra hit that households will have to absorb.

Higher interest rates also make debt refinancing more expensive for Air Canada. Economists are also predicting a recession in the next couple of years, as a result of the aggressive rate hikes.

## Should you buy Air Canada stock now?

Air Canada reported a net loss of \$974 million in Q1 2022. Ongoing travel restrictions and the Omicron wave kept travelers off planes. The Q2 and Q3 numbers should be much better, but investors might want to wait to see if the company can actually return to profitability, even with planes full and the number of routes increasing.

Air Canada looks more attractive today than it did at \$28, but the market is still pricing in a rosy expectation of future profits. This might be a bit too optimistic, as the airline still faces some strong headwinds on the path to a full recovery. Traders could certainly make some money on a bounce, but buy-and-hold investors should be careful, even at the current share price.

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