Air Canada Stock Price: Headed to $15?

Description

There's no question that the Canadian stock that has had to deal with the most significant headwinds over the last 30 months is **Air Canada** (TSX:AC). And now, even after the pandemic's impacts have subsided, Air Canada stock continues to see its price fall, as more headwinds impact investors' appetite.

After more than a year of the pandemic significantly impacting its operations and causing Air Canada stock to lose a tonne of value, the stock looked like it was finally recovering. Air Canada's operations were ramping back up, and demand was returning rapidly.

Now, though, with much different headwinds impacting operations as well as a tonne of uncertainty impacting the valuation of the stock, it's once again become extremely cheap.

Investors are likely wondering whether this is the bottom and a chance for investors to buy the stock ultra-cheap or if the stock could continue to fall and even sink below $15.

Could the price of Air Canada stock continue to fall?

Although Air Canada stock is finally seeing a long-awaited recovery in its operations due to the macroeconomic environment, it could certainly continue to get cheaper before its share price recovers.

Although the pandemic and its impacts are now much less meaningful to the airliner, Air Canada still faces significant risks, and if inflation doesn't slow down soon, interest rates will only continue to rise.

Inflation and interest rates both impact the company's ability to do business. However, they also affect the valuation of Air Canada stock. Since it's clear Air Canada still has a tonne of risk, as uncertainty in markets increases, the price investors are willing to pay for Air Canada stock decreases.

Plus, another factor to keep in mind is that Air Canada's share price can be a little deceiving.

Is Air Canada undervalued below $20?

Although it may look like Air Canada is trading at a value that's roughly 65% off its pre-pandemic high, that's only the price of its shares. In actuality, due to all the debt that it had to take on, and all the dilution it created by issuing new shares, the total value for the business is much closer to the pre-pandemic value than you might think.

For example, at the end of 2019, just prior to the pandemic, Air Canada had a market cap of roughly $12.8 billion. Although the price for Air Canada stock is down by roughly 65%, its market cap is only down 50%.

That's not all, though. Taking all the debt that Air Canada issued into account, the stock has an enterprise value (EV) today of roughly $14.1 billion. That's only 13.4% below the $16.4 billion EV it had at the end of 2019.

Although the share price of Air Canada makes the stock look cheap, when you consider all the debt it's had to take on, the total value for the company is not that much cheaper than it was before the pandemic. And when you also consider all the uncertainty in markets today, it's understandable to see why investors would be hesitant to buy Air Canada stock today without much of a discount.

Therefore, should the economic situation continue to worsen before it gets better, Air Canada stock could certainly continue to fall in price and even potentially sink below $15.

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Date
2025/08/24
Date Created
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