Is Air Canada Stock Worth Buying After a Recent Dip?

Description

Air Canada (TSX:AC) stock has continued to face selling pressure for the last few weeks. In the last three weeks combined, Air Canada's stock price slipped by 22.4% to around $17.27 per share. During the same period, the **TSX Composite Index** has also lost nearly 8.8% of its value. While the broader market selloff has been one of the reasons driving AC stock lower lately, let's take a closer look at some other key factors responsible for its recent downward movement before we find out whether it's worth buying on the dip.

Air Canada stock: No respite in sight?

Air Canada started falling in 2020 after consistently rising in the previous four years. As the global pandemic-related shutdowns and restrictions on air travel raised concerns about the aviation industry's future growth, AC stock slipped by 53% that year. While investors expected the business environment for the airline industry to improve in 2021, new COVID variants continued to haunt the airline companies with extended travel restrictions. That's why instead of recovering, the shares of the Canadian flag carrier fell another 7.2% in 2021.

While easing restrictions and preliminary signs of improving air travel demand triggered a rally in Air Canada stock in early 2022, rising geopolitical tensions, surging jet fuel prices, and fears of a recession are driving it lower again. This is one of the factors why AC stock has seen 26% value erosion in the second quarter so far after rising by nearly 15% in the first quarter.

The recent aggressive interest rate hikes in the U.S. and Canada have renewed concerns about a looming recession. As the demand for air travel is highly correlated with economic cycles, investors now fear that a potential recession could badly hurt the airline companies' post-pandemic financial recovery.

Is it worth buying on the dip?

In its earnings reports for the last couple of quarters, Air Canada has emphasized its recovery strategy in the post-pandemic world. The largest Canadian passenger airline company anticipates demand recovery to gain momentum in the coming quarters after the omicron variant-related travel restrictions affected its Q1 results.

Clearly, a recession in the near term could badly hurt air travel demand in the coming quarters and drive the shares of airline companies, including Air Canada, lower. The recent fears about a recession, however, might be overblown, as overall economic recovery in the post-pandemic era still continues amid a strong labour market across North America. In such a scenario, it’s not possible to predict whether or not we are headed toward a recession. That’s why I would recommend long-term investors shouldn’t sell Air Canada stock in a panic right now. Instead, long-term investors should look for concrete signs to support the recession argument before taking any decision.

That said, the ongoing broader market selloff still has the potential to take stocks across sectors downward in the coming months. Given that, new investors also might not want to buy Air Canada stock in a hurry at current levels — especially without major signs of a reversal in the stock market trend.

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