Air Canada (TSX:AC) Stock: Can it Recover?

Description

Volatile stock market conditions and market downturns tend to scare most stock market investors, prompting selloffs, which cause further decline in valuations. While many investors who are worried about their capital take their money out of the markets during times like these, savvier investors use them as opportunities to find and invest in high-quality, undervalued stocks.

2022 has been a strange year for the stock market. The **S&P/TSX Composite Index** is down by 12.40% from its 52-week high at writing. Despite the recent recovery in the Canadian benchmark index in recent weeks, there still are several stocks trading for considerable discounts.

Today, I will discuss **Air Canada** (TSX:AC), a battered and bruised airline stock that contrarian investors might have an eye on this year. Air Canada stock trades for $16.95 per share. It was trading for around $50 per share before the pandemic struck. Down by around 66% from its pre-pandemic high, it looks like an attractive value bet at current levels.

Pent-up demand and challenges

The airline industry could not shake off the impact of the initial shock with the onset of COVID-19 and ensuing restrictions. Unlike most other industries, airlines could not pivot to adapt to the new normal for their operations. Governments shut down international borders to curb the spread of the pandemic, leading to almost all passenger flights by Air Canada being grounded.

With no passengers to fly on their planes and substantial cash burn to maintain its fleet, Air Canada lost a lot of money amid the pandemic. Now that the pandemic-induced restrictions have ended, there is a lot of pent-up demand for air travel. Air Canada looks like it has the perfect chance to turn things around.

Unfortunately, its challenges have yet to subside. Fuel prices are soaring worldwide, and inflation is running rampant. People could not travel during the pandemic due to restrictions. Now, many of them cannot travel because they simply cannot afford to anymore.

Air Canada's cost-cutting measures included downsizing its workforce. With a severe shortage of available staff, plenty of flight cancellations are taking place. The dream recovery for the beleaguered flag-carrying airline stock seems like it will remain a dream for now.

Can it turn things around?

Air Canada's first-quarter earnings report for fiscal 2022 came out earlier this year, and it has yet to release its second-quarter report as of this writing. Its Q1 2022 earnings report indicated a 250% jump in revenue, with the airline clocking in over $2.5 billion in revenue for the quarter. Despite the massive improvement, the airline is still far off from its $4.5 billion quarterly revenue in Q1 for fiscal 2019.

Air Canada stock had a negative EBITDA of $143 million, and it lost over $900 million on the bottom line in Q1 2022. Achieving significant improvement in its performance will be critical for Air Canada. Unfortunately, the headwinds impacting its business look like they are here to stay. It could take a long time for the airline to become profitable again.

Foolish takeaway

Air Canada stock has a trailing price-to-earnings ratio of 89.39. Despite such a heavily discounted valuation, it is extremely expensive. The company is facing substantial challenges due to macroeconomic factors impacting its outlook. Air Canada might not be a good investment for value-seeking investors, unless it becomes significantly cheaper or it sees a significant boost to its operations soon.

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