If I'd Invested in Air Canada Stock at the Start of 2022, Here's What I'd Have Now

**Description**

**Air Canada** (TSX:AC) and the rest of the air travel industry have continued to experience profound turbulence this year. Indeed, the COVID pandemic may be winding down, and business travel may have the means to march higher over the longer term. Still, with inflationary pressures and a looming recession, it's a new slate of woes that are weighing down the airlines.



As an internationally focused airline, Air Canada has greater exposure to global markets that could face more damage at the hands of the coming Fed-mandated economic downturn. From one bad environment to another, things couldn't be gloomier for air travel firms.

At writing, Air Canada stock is hovering at around $18 and change per share. After a nearly 7% single-day pop enjoyed on Tuesday, shares of AC could easily have put in some sort of bottom. In any case, the fact remains that Air Canada stock is in the depths it spent most of 2020 in.

It's been a slog for Air Canada and the rest of the risk-on names this year. Shares of AC stock are down around 19% year to date. That's a tad worse than the TSX Index, which is off around 16% from its peak at the start of the year.

If I'd invested $1,000 in AC stock at the start of the year, I'd have lost $189. Indeed, such losses are pretty much in line with the markets. Most of the damage done was between January and March of 2020, which saw shares crumble from $50 to the low teens.

## No breaks for AC stock: From pandemic headwinds to a recession

Undoubtedly, Air Canada is a name that requires investor patience. Unfortunately, those who chased AC shares on the way down in 2020 or on the way up in late 2020 or 2021 are likely sitting on sizeable losses. The "pandemic-will-end-soon" thesis may have been accurate, but the ensuing rate-driven recession seems unavoidable at this point.

Like in past economic downcycles, it's the airlines that tend to fold like a paper bag. Eventually, the tides will turn, but investors must be willing to endure yet another wave of headwinds. Fortunately, the worst already seems to be behind the air travel firms, assuming no more COVID lockdowns are on the table.

Government-mandated lockdowns are essentially a bear-case scenario for the airlines. Though travel demand destruction as a result of stagflation, inflation, or a recession may not bode well for Air Canada's recovery prospects, I think there's way more certainty with such companies than in the dark days of early 2020.

With that, I view Air Canada as a deep-value offering, but only for those willing to endure wild swings for another three years at a minimum.

## Air Canada: Doing its best amid headwinds

Looking ahead, there is hope for Air Canada, which was forced to adapt to the dark times. Air Canada's management was dealt the worst hand possible. Still, they've played it well, in my opinion, even though the stock price action would suggest otherwise.



Air Canada can't control international travel demand, the macro state, or the pandemic. What it can control are costs. The company continues to operate at a limited capacity (around 20% for domestic flights), but as borders continue to reopen across the globe, I think it'll be tough to stop an international air travel comeback.

At the end of the day, travelers have the ability to book. Now all that matters is whether they have the discretionary funds to do so. Given the mild nature of a coming downturn, I'd argue the worst may already be baked in, with shares going for just 0.6 times price to sales.

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