Is Now the Time to Buy Airline Stocks?

Description

There are few if any segments of the market that have suffered as much as airline stocks since the pandemic started. And now that the closures are over and markets are open again, some investors may be contemplating whether now is the time to buy airline stocks.

Let's take a closer look at **Air Canada** (TSX:AC) and try to answer that question.

Is Air Canada flying higher?

Air Canada is the largest passenger airline in Canada. When the pandemic shuttered access to markets across the world, cargo traffic, fueled by soaring online commerce demand, soared. Air Canada on the other hand saw its passenger traffic, and by extension, revenue plummet.

Fortunately, things have improved. This past summer, markets finally opened to exceptionally strong demand. In fact, the demand for travel was so strong that some airports were caught short-staffed, which led to massive delays and flight cancellations.

Air Canada is already planning for the expected boom to continue into *next* summer. Just this week, the airline announced a series of new and resumed flights starting next spring. New destinations include Brussels, Toulouse, and Copenhagen. Air Canada also noted that it would add flights to Osaka and Tokyo (Haneda) starting next spring.

The airline also plans to increase capacity across many of its existing international routes next year.

FOMO or YOLO?

The new destinations and added capacity are a welcome change from the closures and cuts we've seen over the past few years. Perhaps more importantly, international destinations are significant revenue drivers for the airline. In short, re-establishing that network traffic is something that Air Canada needs, but also something that will take time.

In addition to markets re-opening, Air Canada needs to account for a host of other issues such as volatile fuel prices.

Fortunately, engineering a successful turnaround in a difficult market is something that Air Canada has a lot of experience with. Few investors may realize this, but in the decade prior to the pandemic, Air Canada was one of the best-performing, if not the best-performing stock on the market.

The airline went from being straddled with debt and trading at just over $2 a share in 2010 to topping out near $50 before the pandemic. In case you're wondering, that's a return of well over 1,800%!

In short, Air Canada has the management, deep pockets, and a path to return to the days of record-breaking quarters. What the company, and by extension, investors need to provide is time.

In the most recent quarter, Air Canada began to show a glimpse of returning to those better times. The airline posted operating revenues of $4 billion, representing a massive five-fold increase over the same period in 2021.

In terms of traffic, Air Canada transported 9.1 million passengers in the most recent quarter. By way of comparison, that represents nearly 70% of the full-year traffic reported in 2021. Again, that's a massive improvement. But did Air Canada make a profit?

While the airline did post its narrowest loss since the pandemic started, it was still considerable at $253 million. Fortunately, the loss paled in comparison to the $1.1 billion loss in the same period last year.

Is it time to buy airline stocks like Air Canada?

As of the time of writing, Air Canada trades down nearly 18% year to date. Given the fact that the entire market is down, Air Canada could be seen as one (small) value option for investors with an appetite for risk.

Air Canada will recover from its current lows, but that recovery will be a long road that may take several years.

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Date
2025/09/08
Date Created
2022/10/14
Author
dafxentiou