Stock Market Sell-Off: Is Air Canada a Buy?

Description

Canadian stocks showcased good strength in October as the **TSX Composite Index** recovered by 5.3% after a sell-off in previous months. Despite the recent sharp recovery, the index has still lost more than 11% of its value in the last seven months. Headwinds include several macroeconomic uncertainties due to high inflation and slowing global economic growth. **Air Canada** (TSX:AC) stock has underperformed the broader market during this seven-month period, losing over 19% of its value. Do these losses in AC stock make it look undervalued and worth buying for the long term? Before we discuss that, let's take a closer look at some key highlights from Air Canada's latest earnings report released last week.

Air Canada beat on Q3 earnings

In Q3, Air Canada reported a 153% YoY (year-over-year) increase in its total revenue to $5.3 billion – exceeding analysts' estimates of $4.9 billion. Also, its September quarter sales showcased significant improvement over its Q2 revenue of $4 billion. The largest Canadian passenger airline attributed this improvement to strong demand and solid 150% capacity growth.

These positive factors, along with improved yields and the consistent positive contribution of its cargo segment, helped Air Canada post an operating margin of 12.1%. Interestingly, it was the first quarter since the start of the pandemic in which the company reported a positive operating margin. With this, its net loss for the September quarter narrowed to $508 million from $640 million a year ago but increased compared with its net loss of $386 million in the previous quarter.

But its challenges are not over yet

After losing 6.2% of its value in September, Air Canada stock jumped by 18.1% in October. The decline was mainly due to investors' high expectations from its Q3 results. The Canadian flag carrier managed to post a positive operating margin in the last quarter. Yet, its troubles seem far from over as it faces a gloomy economic outlook.

Consider that, Air Canada's aircraft fuel expenses jumped by $1.2 billion, or 243%, YoY in Q3 2022. And with ongoing geopolitical conflicts and strong demand, it's highly unlikely that aircraft fuel prices will see a big dip in the near term. That's why I expect high fuel expenses to continue to take a toll on the airline company's bottom line in the coming quarters as well. In addition, a worsening economic outlook could hurt the demand for air travel – especially if the fears about a near-term recession turn out to be true.

Is AC stock worth buying right now?

Given all these challenges, I wouldn't be surprised if AC stock's rollercoaster ride continues in the coming months. Be mindful, its share prices could fall again after staging a recovery in October. Nonetheless, we must remember that no one can accurately predict a recession and to what extent it will affect air travel demand. That's why long-term investors might not want to worry about short-term, temporary macroeconomic uncertainties. Instead, remain focused on adding fundamentally strong stocks to your portfolio at a bargain. Then, hold on for decades. Despite its October rally, Air Canada's share price is still nearly 60% down from the pre-pandemic 2019 closing price.

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Date

2025/08/19
Date Created
2022/11/01
Author
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