Is Air Canada Stock a Buy Today?

Description

Air travel is on the rebound after global pandemic lockdowns hammered the industry. Investors are now wondering if travel stocks like **Air Canada** (TSX:AC) are now good to buy for a self-directed portfolio.

Travel rebound

Airlines are ramping up capacity again to meet soaring travel demand. The end of COVID-19 restrictions in most parts of the world means people can once again take a holiday or go to visit relatives and friends in different countries. The pent-up demand and limited seat capacity have enabled airlines to increase prices. This helps offset the sharp increases in fuel costs caused by high oil prices. It also means some airlines are targeting a return to profitability earlier than expected.

Business trips are also starting to recover as executives and salespeople rekindle in-person relationships with key customers. This is good news for airlines. The business seats command the highest prices and have historically provided the margins that make flights profitable. Analysts, however, are still debating if online meetings will permanently replace some business travel.

In the near term, a global economic downturn could put the brakes on the recovery in air travel. High inflation and rising mortgage costs could force households to cut the annual holiday from the budget. A recession will also impact businesses. Travel is expensive and non-essential trips could be reduced or eliminated to protect cash flows, especially after the pandemic proved that business people can get deals done via online meetings.

Is Air Canada a good stock to buy today?

Air Canada reported a net loss of $508 million in Q3 2022 compared to a net loss of $640 million in the same period last year. Operating income was positive for the first time since the start of the pandemic, but Air Canada still has some work to do to get to profitability.

With total liquidity of $10.2 billion, Air Canada has the capital to ride out a potential economic downturn, but net debt is up $876 million since the start of the year to $7.8 billion as of September 30, 2022. That's not encouraging and investors will want to keep an eye on the net debt number in the coming quarters.

High fuel prices are expected to continue. The airline industry, like many other sectors, is also struggling with staff shortages after massive job cuts put in place during the pandemic. Air Canada slashed more than half of its staff. The challenge of finding enough employees has led to a jump in wage costs that have to be covered through higher ticket prices. Travellers have been willing to pay more to travel after being stuck at home for so long. But it is uncertain if that trend will continue, especially as inflation and rising debt expenses continue to hit discretionary spending.

Air Canada trades near $19 per share at the time of writing compared with a 12-month high near $26. Despite the dip, the stock still looks expensive for a company that continues to lose money. Given the uncertain economic outlook, I would probably search for other opportunities in the market today.

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