Down by 56.11%: Is 2023 Finally the Year to Buy Air Canada Stock?

Description

Every sector worldwide saw a decline when the pandemic struck due to the uncertainty and fear it instilled. While businesses across most industries found ways to work around the challenges posed by the global health crisis, the airline sector was one of the few that could not find ways to cope with the situation to minimize its impact on operations.

Airline stocks like **Air Canada** (TSX:AC) fell out of favour with investors, as they sought investments that mitigated some of the losses they suffered due to the pandemic. For the airline industry, it took until 2022 to begin seeing a recovery. Travel restrictions easing up allowed travelers with plenty of pent-up demand to finally get a change of scenery, benefitting the airline industry.

Unfortunately, all that downtime made dealing with the growth in travel demand a challenge for airlines to contend with. Since airlines and the broader travel industry are dealing with those issues, stocks like Air Canada finally seem like they might have a better year in 2023.

Let's take a closer look at Air Canada stock and its potential in 2023 and beyond. We will also discuss the potential risks that should remind you to be cautious if you invest in the recovering airline giant.

Is the flag-carrier airline undervalued in today's market?

As of this writing, Air Canada stock trades for $22.42 per share. One look at the Air Canada stock chart will show you how strong a start Canada's largest airline has had to 2023. If you look at its pre-pandemic level, you will also notice that it still trades for less than half of what Air Canada stock was for before travel restrictions shut everything down.

While it trades for such discounted valuations, it might seem undervalued. However, it is too early to say that it is. Granted, the broader market has seen a boom in the last few weeks. Still, the economy is still dealing with potentially treacherous waters ahead.

The rising interest rate environment can significantly impact industries across the board. Since vacationing is a discretionary expense, a financial crunch due to a recession can leave Canadians stopping air travel when they start cutting down spending.

Additionally, it is essential to understand that the beleaguered airline burnt a lot of money amid the pandemic. Forced to take on considerable debt and diluting shareholders to raise capital, there is still time for Air Canada to return to profitability.

Where does it stand right now?

Since the second half of 2022, air Canada stock saw revenue rebound sharply. Unfortunately, volatile fuel prices and higher borrowing costs mean a reasonable recovery might take a long time.

As of this writing, Air Canada stock finally has a forward price-to-earnings ratio of 21.46, making it the first time it has been positive since the pandemic struck. While the airline stock seems like it is on a path to recovery, it might not offer as much value as an ideal breakaway stock might.

Foolish takeaway

While it does not offer a lot of value at its current levels, it could be a good investment if the situation turns out to be more favourable for the airline industry this year. A fair warning, though: slowing economic activity and reduced air travel demand can make it tougher for the airline stock to return to profitability in 2023.

Buying and holding Air Canada stock can provide good long-term returns if you are not worried about short-term losses. For investors with a shorter investment horizon, it might not be the best pick to invest in right now.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. adamothman
2. kduncombe

Category

1. Investing

Date
2025/08/28
Date Created
2023/01/31
Author
adamothman