

Air Canada (TSX: AC )

- **Recommendation:** I recommend buying AC because its undervalued by 43.6%
- **Investment Thesis:** Air Canadas stock is currently undervalued as a result of the COVID-19 Pandemic
- **Catalysts:** With Canada finally opening up, Air Canada's revenue will begin to pick up
- **Valuation:** Currently \$25.50, intrinsic value around \$40-\$45
- **Risks:** Shareholder dilution, delta strain, and current cash flow situation

# Company Background

- Industry: Airline Transportation Services (Industrial)
- LTM Financials: \$2.84 Billion Revenue, -\$3.72 Billion EBITDA
- Market Cap: \$8.54 Billion
- LTM Multiples: 5.41 EV / Revenue; -4.13 EV / EBITDA
- Products:
  - Passenger Travel
  - Transportation Assistance
  - Cargo Transportation
  - Concierge Service
  - Business Check-In

Unaudited (Canadian dollars in millions except per share figures)		Three months ended March 31	
		2021	2020
<b>Operating revenues</b>			
Passenger	Note 10	\$ 395	\$ 3,193
Cargo	Note 10	281	149
Other		53	380
<b>Total revenues</b>		<b>729</b>	<b>3,722</b>



# Investment Thesis

COVID-19

# Catalysts

## Rising Travel Demand

- Loosened lockdown restrictions increase demand for air travel

## High Liquidity for Recovery Plan

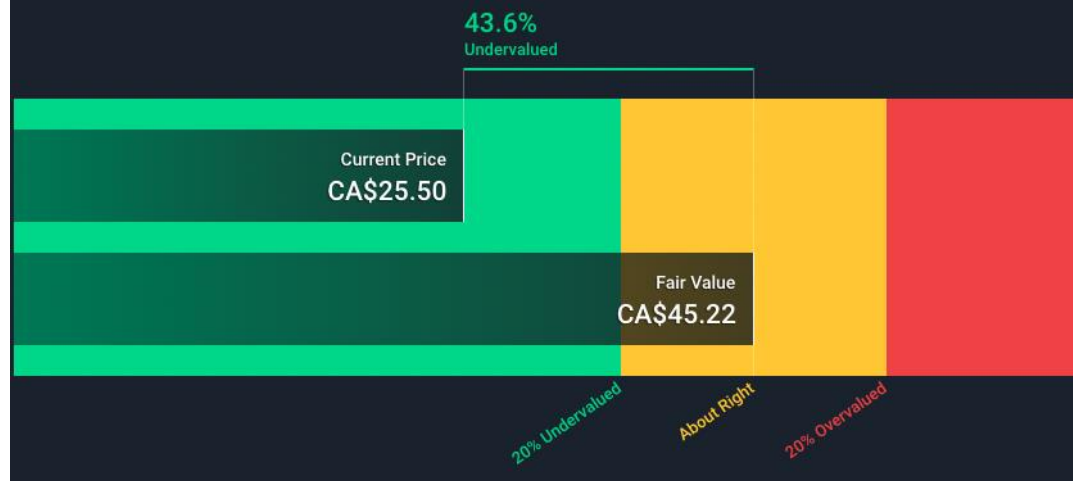
- Debt & equity financing agreement with Canadian Government
- Access up to \$5.9 billion in liquidity (on top of \$6.6 billion from prevailing Air Canada operations)

## Multiple Revenue Streams

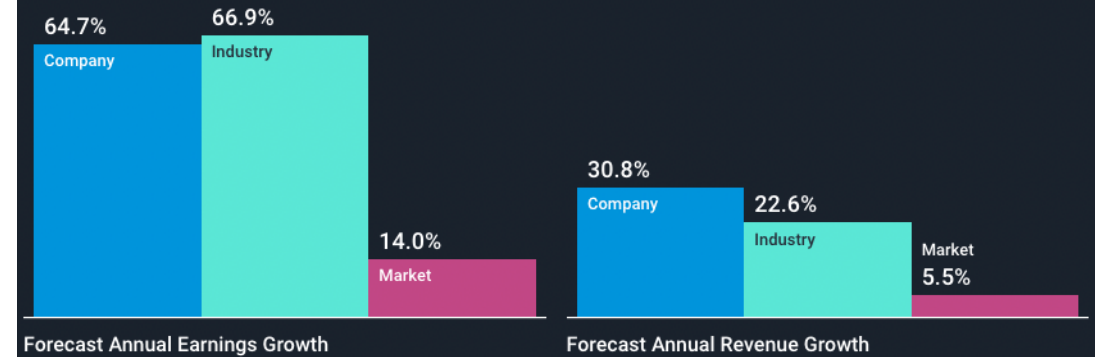
- Additional revenue streams through newly improved cargo business

# Valuation Summary

## 3.1 Share Price vs. Fair Value



## 4.2 Analyst Future Growth Forecasts



- ✓ **Earnings vs Savings Rate:** AC is forecast to become profitable over the next 3 years, which is considered faster growth than the savings rate (1.5%).
- ✓ **Earnings vs Market:** AC is forecast to become profitable over the next 3 years, which is considered above average market growth.
- ✓ **High Growth Earnings:** AC's is expected to become profitable in the next 3 years.
- ✓ **Revenue vs Market:** AC's revenue (30.8% per year) is forecast to grow faster than the Canadian market (5.5% per year).
- ✓ **High Growth Revenue:** AC's revenue (30.8% per year) is forecast to grow faster than 20% per year.

# Key Risk Factors

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Current cash flow does not cover debt

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Agreement with the Canadian government includes a lot of conditions

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Delta Variant

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Shareholder Dilution

## Summary and Recommendations

- I recommend buying Air Canada and holding for the next 12 months
- With traveling expected to pick up once the pandemic is over, revenues will return to pre pandemic levels

