



## Air Canada Beats Estimates, Stock Soars

### Description

**Air Canada's** (TSX:AC.B) stock is flying on Wednesday after announcing better than expected quarterly results.

With just over an hour in trading to go, the stock sits up a tidy 25% after more than 8 million shares have traded hands thus far. That's a *slight* increase over the typical 1.1 million or so that trade on an average day.

Capital IQ indicates that normalized earnings for our national airline came in at \$0.41 vs. an estimate of \$0.13. The company exceeded estimates on the top line as well, as quarterly revenues checked in at \$3.057 billion vs. the estimated \$3.018 billion. Incidentally, this was the best second quarter revenue ever.

Increased sales of inflight earphones have been attributed to this beat. Not really.

Positive year-over-year yield growth of 1.5% was no doubt a factor in this huge move by the stock, particularly after **WestJet** (TSX:WJA) reported that yield growth had turned negative in the Q2'13.

Cost containment was another big positive. Management now expects costs to be down 1% to 2% in 2013 vs. the projected -0.5% to -1.5%. Lower maintenance costs appear to be behind this improved forecast.

Maintenance is precisely the area that frequent flyers are happy to see costs being contained. Again, not really.

### The Foolish Bottom Line

If you bought Air Canada shares yesterday and sold them today, congratulations, you are in the minority of investors that have ever made money on an airline stock. While the company appears to be flying along smoothly at the moment, you can almost bet that it won't always be so. And with a still wonky balance sheet that carries more than \$3 billion of debt and negative equity, Air Canada faces significant long-term financial risk alongside the implied business risk that its industry holds. Investors

beware!

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*Fool contributor Iain Butler does not own shares in any company mentioned at this time. The Motley Fool doesn't own shares in any of the companies mentioned.*

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