



## Why Air Canada Shares Took a Nosedive

### Description

#### 10% Promise Series

*Although we don't believe in timing the market or panicking over market movements, we do like to keep an eye on big changes — just in case they're material to our investing thesis.*

**What:** Shares of **Air Canada** (TSX:AC.B) plummeted 16% today after the airline operator's quarterly results and outlook disappointed Bay Street.

**So what:** The stock has plunged over the past month on concerns over rising costs, and today's Q4 miss — EPS of \$0.01 on revenue of \$2.89 billion versus the consensus of \$0.11 and \$2.93 billion — coupled with downbeat guidance only confirms those headwinds. Management cited severe weather conditions and the depreciating loonie for the disappointing report, forcing analysts to bake in higher fuel and purchase costs — paid in U.S. dollars — into their valuation models.

**Now what:** Don't expect the cost turbulence to let up anytime soon. "[G]iven severe weather conditions, the weaker Canadian dollar and the impact of increased capacity in certain markets, we expect our first quarter EBITDAR to be below last year's level by \$15 to \$30 million," President and CEO Calin Rovinescu cautioned. "We are confident in our ability to mitigate the financial impact of these factors over the 2014 fiscal year." Of course, with the stock still up more than 240% from its 52-week lows, I'd wait for a *much* wider margin of safety before betting on that optimism.

### CATEGORY

1. Investing

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