Is Air Canada’s Stock Preparing to Take Flight?

Description

Thanks to several cost-cutting initiatives at **Air Canada** (TSX: AC.B) the company’s financials have experienced a noticeable turnaround. Investors have rallied behind the changes, pushing the stock from $2.53 per share on June 25, 2013 to $9.11 on June 25, 2014. This is a rather impressive single-year growth spike, but is this the end of the stock’s rally or just its first waypoint?

Several analysts have given some rather positive price targets in the past couple of weeks. First, let’s take a quick look at the changes and circumstances that have led analysts to drastically raise their price targets.

The rouge effect

Air Canada is looking to use its rouge discount carrier to its fullest potential by using it to offset its costs by $100 million over the next five years. The plan is to transfer several leisure routes to the rouge banner, mostly western Canadian flights heading to the southern U.S. By doing this, Air Canada is looking to reduce cost per available seat mile by 15%. Rouge aircraft operate on an average cost of 21% less than their Air Canada counterparts, by operating with lower overhead and employing a more flexible workforce.

The loonie vs. the price of fuel

Back in April, competitor **WestJet** (TSX: WJA) reported that for every cent that the loonie fell, its operating costs would rise by $13 million. This is due to the increased price of fuel paid in U.S. dollars, which makes up $11 million of the estimated operational increases. The higher price of fuel is a problem that is faced by Air Canada as well. However, with the loonie back on an upswing, closing at $0.93 on Wednesday, operational costs can be expected to be lower during the current quarter.

Higher load factors

Last month, Air Canada posted a record system load factor of 83.3%, up from 81.8% last May. Overall traffic also increased by 10.5%, far beyond the 6.5% estimated by insiders. This is a combined number for Air Canada and rouge.

Air traffic analysts

With all of this information under consideration, an analyst over at BMO Nesbitt Burns has raised his price target from $10.00 to $12.00. This is slightly above the average price target of $11.40, but there are other analysts that see an even brighter future for Air Canada. One analyst at RBC Capital Markets believes the stock could go as high as $17 in the near future, a 42% increase over his last projection. Over the long term, the same analyst believes that under a best-case scenario the stock could climb as high as $30.00.

CATEGORY

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