

## Should You Buy, Sell, or Hold Air Canada Today?

### Description

**Air Canada** ([TSX:AC](#)), the largest full-service airline in Canada, announced fourth-quarter earnings on the morning of February 11 and its stock has responded by falling over 8%. Let's break down the quarterly results and the company's outlook on fiscal 2015 to determine if we should consider using this weakness as a long-term buying opportunity, or a major warning sign.

### The quarterly results are in

Here's a summary of Air Canada's fourth-quarter earnings compared to its results in the same period a year ago.

Metric	Reported	Year Ago
Earnings Per Share	\$0.23	\$0.01
Revenue	\$3.10 billion	\$2.89 billion

Source: Air Canada

Air Canada's adjusted earnings per share increased 2,200% and its revenue increased 7.3% compared to the fourth quarter of fiscal 2013. The company's immense earnings per share growth can be attributed to adjusted net income increasing 2,133.3% to \$67 million, while its strong revenue growth can be attributed to the total number of revenue passengers carried increasing 8.1% to 9.19 million for the quarter.

Here's a breakdown of 10 other notable statistics and ratios from the report compared to the year-ago period:

1. Seats dispatched increased 6.2% to 11.95 million.
2. Available seat miles increased 8.5% to 17.4 billion.
3. Revenue passenger miles increased 9.4% to 14.09 billion.
4. Passenger revenue per available seat mile decreased 0.6% to 15.6 cents.
5. Adjusted cost per available seat mile (CASM) remained unchanged at 12.1 cents.
6. Passenger load factor improved 70 basis points to 81%.
7. Aircraft in operating fleet increased 3.4% to 364.
8. Adjusted earnings before interest, taxes, depreciation, amortization, and aircraft rent increased 15.2% to \$319 million.
9. Economic fuel costs per litre decreased 8.7% to 80.7 cents.
10. Return on invested capital improved 160 basis points to 12.1%.

Air Canada provided its outlook on fiscal 2015, calling for the following performance compared to fiscal 2014.

- Available seat miles to increase 9%-10%

- Seats dispatched to increase 2.5%-3.5%
- Adjusted CASM to decrease 0.75%-1.75%
- Jet fuel price of approximately \$0.67 per litre
- Canadian GDP growth of 1.75%-2.25%

### **Should you buy shares of Air Canada today?**

Air Canada is Canada's largest full-service airline, and increased traffic led it to a very strong fourth-quarter performance, but its stock has responded by falling over 8%.

I think the large post-earnings drop in Air Canada's stock represents an intriguing long-term buying opportunity, because it now trades at very low valuations, including only 7 times its adjusted earnings per share of \$1.81 for fiscal 2014 and a mere 6.7 times analysts' estimated earnings per share of \$1.89 for fiscal 2015, both of which are extremely inexpensive compared to its five-year average price-to-earnings multiple of 32.7.

With all of the information above in mind, I think Air Canada represents one of the best long-term investment opportunities in the market, so Foolish investors should take a closer look and strongly consider scaling into positions today.

#### **CATEGORY**

1. Investing

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