Air Canada Reports Record Q1 Results: Is Now the Time to Buy?

Description

Air Canada (TSX:AC), the largest full-service airline in Canada, announced record first-quarter earnings on the morning of May 11, and its stock has responded by rising over 3%. Let's take a closer look at the results to determine if we should consider buying in to this rally, or if we should wait for it to subside.

Breaking down the record-setting results

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

Metric	Q1 2015	Q1 2014
Adjusted Earnings Per Share	$0.41	($0.46)
Operating Revenues	$3.25 billion	$3.07 billion

Source: Air Canada

In the first quarter of fiscal 2015, Air Canada reported an adjusted net profit of $122 million, or $0.41 per share, compared with an adjusted net loss of $132 million, or $0.46 per share, in the same quarter a year ago, as its operating revenues increased 6% to $3.25 billion.

These very strong results can be attributed to two primary factors. First, Air Canada carried 9.49 million passengers during the quarter, an increase of 8.4% compared with the year-ago period. Second, its total operating expenses decreased 2% to $3.05 billion, driven by low oil prices, which led to its economic fuel cost decreasing 30% to just 66.3 cents per litre.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Revenue passenger miles increased 10.9% to 14.94 billion
2. Passenger load factor improved 120 basis points to 81.5%

3. Adjusted operating cost per available seat mile decreased 1.8% to 11.9 cents
4. Earnings before interest, taxes, depreciation, amortization, and aircraft rent (EBITDAR) increased 200.7% to $442 million
5. EBITDAR margin expanded 880 basis points to 13.6%
6. Operating income increased $262 million to $200 million
7. Operating margin expanded 820 basis points to 6.2%
8. Free cash flow increased 1,026.5% to $383 million
9. Aircraft in operating fleet increased 4.5% to 369
10. Return on invested capital improved 430 basis points to 15.2%

Can the rally in Air Canada's shares continue?

The first quarter was one for the record books for Air Canada, so I think the post-earnings rally in its stock is more than warranted. I also think the stock could go higher from here because it trades at very low valuations, including just 6.7 times fiscal 2014's adjusted earnings per share of $1.81 and a mere 4.6 times its trailing 12 months adjusted earnings per share of $2.66, both of which are very inexpensive compared with the industry average price-to-earnings multiple of 13.3.

With all of the information above in mind, I think Air Canada represents one of the best long-term investment opportunities in the airline industry today. Foolish investors should take a closer look and strongly consider beginning to scale in to positions.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:AC (Air Canada)

Category

1. Investing
2. Stocks for Beginners

Date
2025/09/18
Date Created
2015/05/12
Author
jsolitro