Air Canada’s Shares Fall 6% Despite Record Q2 Results: Should You Buy Now?

Description

Air Canada (TSX:AC), the largest full-service airline in Canada, announced record second-quarter earnings results before the market opened on August 12, but its stock responded by falling over 6% in the day’s trading session. Let’s take a closer look at the results to determine if we should consider using this weakness as a long-term buying opportunity, or a warning sign to avoid the stock for the time being.

The record-setting quarterly performance

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

Metric	Q2 2015	Q2 2014
Adjusted Diluted Earnings Per Share	$0.85	$0.47
Operating Revenues	$3.41 billion	$3.31 billion

Source: Air Canada

Air Canada’s adjusted earnings per diluted share increased 80.9% and its operating revenues increased 3.3% compared with the second quarter of fiscal 2014. The company’s very strong earnings-per-share growth can be attributed to its adjusted net income increasing 79.9% to $250 million, which was helped by its total operating expenses increasing just 1% to $3.09 billion, including its fuel costs decreasing 22.4% to $648 million.

Its slight increase in revenue can be attributed to its total number of passengers carried increasing 6.3% to 10.23 million, which led to its total passenger revenue increasing 3.9% to $3.08 billion.

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

1. Seats dispatched increased 5.7% to 12.99 million

2. Capacity (available seat miles) increased 9.3% to 20.13 billion
3. Traffic (revenue passenger miles) increased 8.7% to 16.85 billion
4. Cargo revenue increased 0.8% to $123 million and other revenues decreased 4.1% to $209 million
5. Earnings before interest, taxes, depreciation, amortization, and aircraft rent (EBITDAR) increased 29.6% to $591 million
6. EBITDAR margin expanded 350 basis points to 17.3%
7. Operating income increased 31.8% to $323 million
8. Operating margin expanded 210 basis points to 9.5%
9. Reported free cash flow of $299 million, compared to a cash use of $36 million in the year-ago period
10. Return on invested capital improved 520 basis points to 16.2%

Air Canada went on to state that it expects to deliver record results in the third quarter as well, and is calling for the following performance compared with the year-ago period:

- An increase of 9.5-10.5% in the number of available seat miles
- An increase of 6.5-7.5% in the number of seats dispatched
- An increase of approximately 3% in the average stage length
- EBITDAR margin expansion of more than 350 basis points

Should you buy Air Canada on the dip?

It was a phenomenal quarter overall for Air Canada, so I do not think the post-earnings drop in its stock was warranted. With this being said, I think the drop represents nothing more than a great long-term buying opportunity, especially because the stock now trades at even more attractive valuations, including a miniscule 3.3 times fiscal 2015's estimated earnings per share of $3.69, which is very inexpensive compared with its five-year average price-to-earnings multiple of 31.6 and the industry average multiple of 20.1.

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

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

Category

1. Investing

Date
2025/09/17
Date Created
2015/08/13

Author
jsolitro