



Air Canada's Record Q3 Results Soar Past Expectations: Is Now the Time to Buy?

Description

Air Canada ([TSX:AC](#)), the largest full-service airline in Canada, announced record third-quarter earnings results before the market opened on November 5, and its stock has responded by rising over 5%. 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 before initiating positions.

The results that crushed analysts' expectations

Here's a summary of Air Canada's third-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago.

| Metric | Q3 2015 Actual | Q3 2015 Expected | Q3 2014 Actual |
|-----------------------------|----------------|------------------|----------------|
| Adjusted Earnings Per Share | \$2.50 | \$2.21 | \$1.55 |
| Operating Revenue | \$4.02 billion | \$3.94 billion | \$3.80 billion |

Source: Financial Times

Air Canada's adjusted earnings per diluted share increased 61.3% and its operating revenue increased 5.9% compared with the third quarter of fiscal 2014. Its double-digit percentage increase in earnings per share can be attributed to its adjusted net income increasing 60.6% to \$734 million, helped by its total operating expenses decreasing 2% to \$3.21 billion.

Its very strong operating revenue growth can be attributed to its total number of passengers carried increasing 6.8% to 11.72 million, which led to its passenger revenues increasing 6.9% to \$3.72 billion.

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

1. Seats dispatched increased 6.6% to 14.41 million
2. Capacity (available seat miles) increased 10.5% to 23.54 billion

3. Traffic (revenue passenger miles) increased 10.2% to 20.46 billion
4. Cargo revenue decreased 7% to \$119 million and other revenues decreased 3.1% to \$188 million
5. Earnings before interest, taxes, depreciation, amortization, and aircraft rent (EBITDAR) increased 43.7% to \$1.08 billion
6. EBITDAR margin improved 700 basis points to 26.7%
7. Operating income increased 54.9% to a record \$815 million
8. Operating margin improved 650 basis points to 20.3%
9. Net cash flows from operating activities increased 149.2% to \$476 million
10. Return on invested capital improved 660 basis points to 18%

Can the rally continue and should you be a buyer?

It was a phenomenal quarter in every way for Air Canada, so I think the post-earnings pop in its stock is warranted. I also think the stock could continue higher from here, because it still trades at very low valuations, including a mere three times fiscal 2015's estimated earnings per share of \$3.83 and only 3.3 times fiscal 2016's estimated earnings per share of \$3.47, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 26.6 and its industry average multiple of 4.7.

At the very least, I think Air Canada's stock could trade at five times earnings, which would place its shares upwards of \$17 by the conclusion of fiscal 2016, representing upside of more than 47% from today's levels.

With all of the information above in mind, I think Air Canada represents one of the top value plays in the market today. All Foolish investors should strongly consider beginning to slowly scale in to long-term positions over the next couple of weeks.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

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