



3 Reasons Why Air Canada Is Flying Higher Than the Competition

Description

Air Canada ([TSX:AC](#))(TSX:AC.B) is currently trading at \$7.40, roughly flat for the week, after dropping over 12% after the fourth-quarter earnings were announced.

Here's a few reasons why Air Canada is a great investment.

Air Canada's 2015 full-year results are positive

For the full year, Air Canada reported adjusted net income of \$1.222 billion, or \$4.18 per diluted share. This represents a massive 130% increase over the 2014 full-year figure, which came in at \$531 million, or \$1.181 per share.

Operating income was also record setting with the company posting \$1.496 billion in 2015, an 83.6% increase over the 2014 figure of \$815 million.

EBITDAR came in at \$2.534 billion, which is significantly higher than the \$1.671 billion reported in the prior year. EBITDAR margins came in at 18.3%, exceeding not only the 2014 figure, but also surpassing the figure noted during the company's 2015 Investor Day target.

The impressive results shattered last year's results, which were record breaking at the time. The company has been focused on international route expansion, cost-cutting, and value-enhancing initiatives over the past few years, and the results now speak for themselves.

The company is forging ahead with a fleet modernization with the focus on adding seats, flying more efficient planes, and moving seats and planes to where they will be most used.

Air Canada is turning to Bombardier

Air Canada also announced the intent to purchase 45 CSeries jets from **Bombardier, Inc.** ([TSX:BBD.B](#)) with a further option available for 30 more. This is quite possibly the best news the struggling company could have hoped for, as it has been waiting over a year for an airline to come forward with an order for the new jet.

Bombardier was up on the news by an impressive 18%.

Beyond the lifeline that this deal represents for Bombardier, the order is the sheer genius for Air Canada and will have investors very pleased. The CSeries is an extremely fuel-efficient plane. It is uniquely placed in the market between commuter-class planes and wide-body jets in the 100-180 passenger range, which is currently under-served.

Given that fuel costs were 39% lower in the most recent quarter, replacing older, less efficient aircraft with newer, more efficient aircraft will help lower costs further in the long run.

On the other end of the fleet, Air Canada is looking at adding seats to the large wide-body **Boeing 777** aircraft that are used for long-distance international travel. Air Canada will also continue to update the international fleet with the new Boeing 787 Dreamliner, which is more fuel efficient than the older 767 it is replacing.

Yet more international expansion?

Nearly two-thirds of Air Canada's revenue is from the company's international routes outside the country. This has shielded the airline from the slowdown in Alberta, where demand for travel in and out of the province has declined significantly.

Looking ahead to the next year, the company stated that nearly 90% of all capacity growth is expected to be from the international markets the airline serves. Larger aircraft that were used in Alberta during the growth years can be re-deployed to other routes that are seeing growth, such as in the eastern side of the country.

Looking back over the years, the international exposure is one of the most compelling reasons I am excited about this stock. The Air Canada of several years ago had a tiny international presence and was losing customers as Canadians were forced to pick another airline for international travel. The more countries and destinations Air Canada serves, the more revenue the company will generate from both within and outside the country.

Given that the stock has dropped considerably this week, Air Canada might be one of the best deals on the market at the moment.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)
2. TSX:BBD.B (Bombardier)

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