



Air Canada: Why Is This Stock Soaring Again?

Description

Air Canada ([TSX:AC](#))(TSX:AC.B) has rallied almost 90% off its 12-month low and is now up a solid 24% on the year.

Let's take a look at Canada's flagship airline to see if it deserves to be in your portfolio.

Back from the dead

Investors have good reason to be suspicious of Air Canada's stock.

The company has a history of going bust, wiping its slate clean, soaring after a restructuring, and then plummeting again once the market turns ugly.

Seven years ago it looked like the company was headed back into bankruptcy, as the financial crisis put a pinch on revenues. Air Canada also had serious pension issues, a debt problem, and unhappy employees.

The board decided to bring in someone with a reputation for being tough, and Calin Rovinescu took over the top job in April 2009 with a plan to turn the company around. He had previously been the chief restructuring officer during Air Canada's 2003-2004 trip into bankruptcy, so he was no stranger to a difficult situation.

At the time Rovinescu became CEO, the stock traded for less than \$1. As things improved under his watch, the shares rallied, hitting \$14 by the middle of 2015 before slipping in the back half of last year and bottoming out around \$7 in January.

At that point, investors were thinking, "Here we go again."

Today the stock is back above \$12.50, and investors are wondering if the situation has stabilized.

Positive developments

The stock's 2016 surge might be attributed to the following factors:

Air Canada now has a pension surplus and new long-term deals signed with pilots and flight attendants, so things should be clear sailing on those fronts.

The company has also been investing in newer, more efficient planes and expanding its reach around the globe, looking to capitalize on connecting traffic growth.

These are not new developments, but the market might be feeling more comfortable with Air Canada's long-term outlook.

Debt has always been an issue with analysts, but Air Canada just cut its debt position by \$355 million, resulting in annual interest savings of \$60 million. That is probably behind the latest rise in the stock.

A look at the recent numbers

The company generated adjusted Q2 2016 net income of \$203 million, or \$0.72 per share, compared to \$250 million, or \$0.85 per share, in the same period last year. Passenger revenue increased 2%.

Free cash flow was negative \$444 million, so the company is still burning through some serious cash.

Traffic growth in all five of the company's geographic markets improved compared to Q2 2015, and Air Canada, along with its discount carrier, Rouge, launched 10 new international routes and 11 new trans-border routes during the second quarter.

The numbers don't justify the rally, so it seems the market is betting on better days ahead.

Should you buy?

Air Canada is employing an aggressive expansion strategy in the face of domestic and global economic headwinds. It's a bold move that could pay off, but it also carries risk.

The stock was an attractive contrarian bet at \$7, but I would be careful buying Air Canada today.

At the very least, investors should wait for the Q3 numbers to come out before considering a new position.

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Author

aswalker

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