



## Air Canada: Record Profits Could Bring Major Troubles

### Description

The CEO of **Air Canada** ([TSX:AC](#))(TSX:AC.B) believes that a weak loonie could be helping the company grow.

First, while fewer Canadians are traveling to the U.S., more Americans are flying into Canada to take advantage of their strong currency. Building additional international routes could end up being fairly lucrative with management anticipating “hundreds of millions” in additional revenue sources.

Second, it's helped the company keep a lid on fuel costs given the weak loonie largely stems from lower crude prices. Jet fuel costs often account for roughly 25% of the airline industry's revenue. So, lower oil prices can help in a huge way. Earlier this year, Air Canada experienced a 26% drop in fuel costs, boosting profits by \$183 million.

All of this has helped push Air Canada stock to \$13 a share last month—a near doubling from the start of the year.

### It seems like the good days keep coming

On November 7 Air Canada reported net income of \$768 million during the third quarter—up from \$437 million a year ago. That equates to \$2.74 per diluted share—up from \$1.48 during the third quarter of 2015. Revenue came in at \$4.5 billion compared with \$4 billion during the same period last year.

Traffic grew by almost 19% compared with the previous year's quarter, including a 28% growth in international-to-international passengers connecting via Canada.

“I am very pleased to report record third quarter results, surpassing the previous records for EBITDAR, operating revenues, operating income and adjusted net income,” said Calin Rovinescu, president and CEO.

### But the good times may be over

According to Canada's transport minister, the country will lift foreign investment limits for Canadian

airlines to 49% from 25%. The aim is to increase competition to help lower fares. The government believes the new rules will also help launch new low-cost airlines—a model that has been springing up across the globe, particularly in Europe.

“I expect fares to go down because of competition, and I expect more destination choices for Canadians,” Transport Minister Marc Garneau said in Montreal.

Not surprisingly, Air Canada shares fell 3.2% on the news.

At a time when Air Canada is posting record profits, the last thing it wants is a price war. As new entrants enter the market aggressively, don't be surprised to see Air Canada's record profit margins normalize.

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1. Editor's Choice

## Date

2025/08/26

## Date Created

2016/11/08

## Author

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