Air Canada Lost Money in Q1 But the Stock Jumped 7% on the News

Description

Air Canada (TSX:AC)(TSX:AC.B) rose 7% May 5 after reporting a loss for the first quarter of this year.

Let's take a look at the numbers to see why the market responded positively to what appeared to be bad results.

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Expectations

In the stock market, bad news is good news if the bad news is less bad than expected, and that's what happened to Air Canada when the Q1 results came out.

Analysts had expected the company to report a loss of $0.61 per share. As it turns out, Air Canada only lost $0.32 per share on an adjusted basis, so everyone let out a sigh of relief and piled back in to the stock.

The concern had been that rising fuel prices would hit the bottom line much harder, but Air Canada managed to mitigate the impact of a 48% year-over-year hike in fuel prices by flying more passengers and delaying some costs.

Lower maintenance costs helped the numbers, but some of the benefit came from maintenance work being deferred.

More passengers

Revenues rose 8.9%, and system traffic jumped 14% compared to Q1 2016.

Air Canada is in the third year of a large capacity expansion with a focus on growing international traffic using the new wide-body fleet of planes.

For example, Air Canada started its non-stop daily service from Montreal to Shanghai in the first quarter. In addition, the company's expansion of its Rouge service to leisure markets is seeing success.

Debt and liquidity in decent shape

Air Canada reported adjusted net debt of $6.7 billion as of March 31, 2017. The adjusted net debt to EBITDAR ratio was 2.5 compared to 2.6 at the end of December.

The company finished Q1 2017 with unrestricted liquidity of $4 billion compared to $3.4 billion at the end of Q4 2016.

Free cash flow for the quarter came in at $470 million.

Outlook

Air Canada says it is on track to achieve its EBITDAR margin target of 15-18% for full year 2017 and 2018.

Free cash flow for the year is targeted at $200-500 million.

Management is confident it can meet its goal of getting the leverage ratio down to 2.2 by 2018.

Should you buy?

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Air Canada is making good progress on its efforts to reduce costs and expand its capacity around the globe. Debt is under control, and the company is generating positive free cash flow.

At $13.60 per share, the stock is already up more than 40% in the past 12 months, so most of the good new might already be baked in to the current price.

Airline stocks, and Air Canada specifically, tend to be volatile, and the best time to buy is normally when things look rather bleak.

For example, this stock traded for $1 in 2012.

As such, I would prefer to look for deals in the dividend-growth names right now, rather than adding Air Canada to the portfolio.

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