



Is Air Canada About to Fly Higher?

Description

Air Canada ([TSX:AC](#))(TSX:AC.B) soared a whopping 9% last Friday as the company released its impressive Q1 2017 earnings report. Air Canada is well positioned to finally respond to the low-cost airfare offered by its main Canadian competitor **WestJet Airlines Ltd.** (TSX:WJA). Is it time to pick up shares of Air Canada before the next upward surge?

The airlines are set to ride a cyclical upswing over the medium term thanks to improving economic conditions. Passenger sales are on the rise, and I believe the momentum will continue into the latter part of the year. Warren Buffett is bullish on the airline industry. He's made several big bets on American airlines stocks, despite not being a fan of them for a majority of his investment career.

Airline stocks are horrible long-term investments. They're extremely cyclical, and if you held on to one during an economic downturn, then you'd be sure to lose your shirt. Air Canada has still yet to recover from the Financial Crisis, but there's a good chance the stock could start rallying by a significant amount over the medium term.

Strong Q1 2017 earnings report

Air Canada reported a Q1 EBITDAR (earnings before interest taxes, depreciation, amortization, impairment, and aircraft rent) margin of 9.4%, which was better than the management team's original projection in its news release earlier this year. The improved margin was thanks to lower maintenance expenses, lower jet fuel prices, and an improved revenue environment.

The company reported an adjusted net loss of \$87 million, which works out to be \$0.32 per diluted share for Q1 2017. Despite reporting a net loss, the company is seeing promising numbers from across the board. Calin Rovinescu, president and CEO of Air Canada, stated that "...the first quarter is traditionally one of our weakest; I am pleased to see system traffic up 14% and revenues up 8.9% year over year."

Going forward, Air Canada expects its EBITDAR margin to hit the 15-18% range for this year with positive free cash flow falling between \$200 million and \$500 million. Air Canada has some major tailwinds behind it, and I think the stock is still too cheap to pass on as a medium-term trade.

Air Canada ready to respond to WestJet's lower-cost airfare

WestJet spends approximately 25% less than Air Canada on a per-mile-flown basis. WestJet is usually the best bet for economy flyers, but Air Canada may finally have a response for the low-cost airline.

There's no question that Air Canada is better known for its premium flight experience, but the company is planning to better cater to its economy customers. Air Canada is planning to remove premium seats from some of its planes to increase the number of economy seats to better compete with WestJet.

Air Canada has some huge tailwinds riding behind it, and if you're looking for deep value, then you should definitely think about initiating a position in Air Canada while the stock is dirt cheap with a 4.5 price-to-earnings multiple.

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