Canada's Airline Stocks: Sell the Drama, Buy the Results

Description

On Friday, July 7, an **Air Canada** (TSX:AC)(TSX:AC.B) plane avoided disaster when it mistakenly initiated a landing sequence over the taxiway instead of the runway in San Francisco. An investigation into the incident will be undertaken by the U.S. Federal Aviation Administration.

You couldn't tell by looking at Air Canada stock. It closed at $20.80 on Wednesday, up 0.19% and teasing all-time highs in the latter half of the trading day. **WestJet Airlines Ltd.** (TSX:WJA), the second-largest airliner in Canada, finished the day at $25.08, up 0.68%.

Air Canada stock surged last Thursday on its announcement that Q2 results would outperform analyst expectations. CEO Calvin Rovinescu cited higher revenue and lower fuel costs as the reasons for the impressive earnings. The stock has had an incredible performance in 2017, gaining 51% on the back of an impressive 2016 and outstanding Q1 results to begin this year.

Analysts at **National Bank of Canada** increased their earnings per share estimates for WestJet in a report last week from $0.19 per share to $0.33. The share price has experienced an increase of 8% in 2017 so far. WestJet boasts a dividend of $0.14 per share and a P/E ratio of $11.61. The company's 200-day moving average is $22.66.

Bank of Montreal raised its target price for both companies on Tuesday, pointing again to low fuel prices in addition to a Canadian dollar gaining strength in anticipation of a rate hike on Wednesday. Air Canada was raised from $20 to $25, and WestJet was raised from $25 to $26.

A report in June by **CAE**, an aviation company based in Montreal, detailed the dire need for pilots to meet global demand. The company estimated that over 250,000 must enter the workforce in the next decade.

Demand has been aided in part by the large drop in fuel prices since 2014. Lower costs for airliners led to a double-digit drop in global airfare during this period.

How much has already been priced in to the gains for these stocks?

Investors may ask themselves this with positive results being telegraphed by analysts and, in the case of Air Canada, the company itself.

The decision by the Bank of Canada to raise rates should have reverberations across the Canadian markets. Even longs may opt to wait to see how things shake out before moving in based on the positive outlook. The last time Air Canada shot past the $15 mark was in 2007, and the share price was hit hard by the ensuing Financial Crisis, hitting a bottom that went below $1.

Strong results and an industry that promises massive long-term growth still make Canada's two top airline companies a great option with a high potential for further gains for both stocks.

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Date
2025/09/17
Date Created
2017/07/13
Author
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