Air Canada’s Q2 Revenues Are up 13%: Should You Buy?

Description

Air Canada (TSX:AC)(TSX:AC.B) released its quarterly earnings today which showed the company’s revenues continuing to increase. Total revenues for the quarter reached $3.9 billion, up 13% year over year. The company achieved a net income of $300 million for the quarter, which was up over 61% from the prior year’s profit of $186 million. These results yielded earnings per share of $1.08.

Initially, the results look good, and I will look into a bit more detail to see if the stock is a buy.

Foreign exchange impact

The company’s operating income was only marginally up to $281 million from last year’s $277 million. This was able to translate into a strong net income because foreign exchange gains of $68 million were up from a loss of $17 million in the prior year for a total swing of $85 million.

Without the positive foreign exchange impact, the improvement in net income would be limited to just $29 million. This cost reduction is primarily a result of lower interest expenses, which were down $18 million for the quarter.

Improved cash flow

The company’s cash flow from operations was $829 million for the quarter for a year-over-year increase of 26%. Although improved, the company still had to take out debt to finance its investing activities of $931 million, which were were down from the prior year’s $1.19 billion.

Lower operating costs

Air Canada’s adjusted cost per available seat mile was down year over year by 3.5%, which is higher than the company’s forecasted reductions that saw decreases of no more than 2.5%. However, a big reason for the reduced expenses was a result of the company’s decision to push planned maintenance into the latter half of 2017.

Year-to-date passenger revenues improve

For the first half of the year, passenger revenue has been up over 10% compared to 2016. Specifically, Air Canada saw a large increase in its passenger revenue for U.S. transborder flights, which was $1.57 billion for the quarter, and up 13% from $1.39 billion in the prior year. Domestically, flights in Canada saw revenue of $2.09 billion, which was up just 3% from 2016.

Currency impact going forward

With many of Air Canada's expenses denominated in U.S. dollars, the rising Canadian currency will favourably impact fuel costs and many maintenance expenses. However, as oil prices increase, so too will overall fuel costs, and normally oil prices move in unison with the Canadian currency.

Is the stock a buy?

Air Canada has been showing strong year-over-year performance, and it looks like there are no signs of slowing down. The stock has been up over 45% this year and is near its 52-week high, so the amount of upside in the stock may be limited. However, with a price-to-earnings multiple under eight, the company comes in far lower than its main competitor **WestJet Airlines Ltd.** (TSX:WJA), which trades at 11.5 times its earnings.

Air Canada's growth has been nothing new, and, annually, the company has seen sales grow as well. In 2016, revenues of $14.67 billion were up almost 6% from the prior year. Prior to that, revenues were up over 4% and increased by 7% in 2014.

Air Canada is a fairly safe stock to invest in, especially given the recent stability in oil prices. If the Canadian dollar is able to see further increases, that will also flow through to the company's bottom line.

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