



Why This Airline's Stock Soared 11% on Monday

Description

Transat AT Inc. (TSX:TRZ) saw its stock nearly reach a three-year high on Monday as its share price jumped 11% to \$8.84. The main driver behind the rise in price was the airline's statement that it expected a much better third quarter than initially forecasted as revenues have proved to be very strong this summer. Transat projects the third quarter will be similar to the one it posted two years ago when adjusted net income was almost \$27 million, rather than last year's tally of just \$2.5 million.

Analysts were expecting \$0.10 earnings per share compared to \$0.71, which is what the company expects to now post for Q3. It is no surprise then that the stock has increased so much; had the stock surprised by that much on earnings day, a similar rise in price would have likely taken place.

I will take a closer look at the stock to see if you should be jumping on board the rally or if the price has gotten too hot to touch.

Current valuation

Now that better earnings are priced into the share's value, Transat will be evaluated based on the new earnings estimate of \$0.71 per share. The concern for investors now is that all the upside might be gone, especially with the share reaching a new 52-week high.

With the updated earnings for Q3, the company's new earnings per share in the trailing 12 months would equal \$0.56. At the share price as of Monday's close, that would mean the stock is trading at almost 16 times its earnings. The book value of the stock is currently over \$11 per share, meaning the stock is trading at about 80% of that value.

Under the new price-to-earnings ratio, Transat might be a bit highly valued with competitors like **Air Canada** ([TSX:AC](#))(TSX:AC.B) trading at less than eight times earnings and **WestJet Airlines Ltd.** (TSX:WJA) being at a multiplier of just 11.

Overall performance

A good quarter is a good start, but the company will need to string together a few more quality results

before investors are convinced that the airline is going in a positive direction. In 2016, Transat's total revenue of \$2.89 billion was 23% less than the company's \$3.75 billion in sales that it recorded for 2014.

In the last fiscal year, the company also posted a loss of \$41 million compared to profits in the previous three years. In three of the past five quarters, the company has seen its bottom line in the red as well, as Transat has failed to find any consistency in its earnings.

Bottom line

There is still plenty of trouble with the stock, and the airline is an afterthought in the industry with giants like Air Canada and WestJet flying most consumers.

I would not be surprised to see the stock give back some of its strong gains from Monday as investors cool off the hype from a surprise quarter and realize that Transat may just be benefiting from a greater demand in travel. There is, unfortunately, no reason to believe the company's future is any brighter or drastically different than it was last week.

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Date

2025/09/30

Date Created

2017/08/22

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