



## 3 Reasons Your Portfolio Will Thrive From an Air Canada Investment

### Description

Every so often, an investment opportunity comes around that literally flies above the heads of investors. An opportunity so lucrative makes us wonder ... why didn't we see this before?

That opportunity is in **Air Canada** ([TSX:AC](#))TSX:AC.B) right now, and few investors realize that the airline is one of the best-performing stocks over the course of the past few years.

### Why airline stocks?

Airlines have considerably mixed reputations as investments. Famed investor Warren Buffett has cited his disdain for airline investments over the years: "the worst sort of business is one that grows rapidly, requires significant capital to engender the growth, and then earns little or no money. Think airlines."

Fortunately, in the period since making that quote, Buffett has invested several billion into some of the largest airlines on the continent, reaping massive gains.

So, what's changed in the airline industry, and why should investors take a closer look at Air Canada? Here are a few reasons to consider Air Canada.

### 1. The airline industry has matured

One of the main reasons so many investors such as Buffett shied away from airlines in the past was due to the overall immaturity in the sector. Airlines were accustomed to posting record-breaking profits in one quarter and then sustaining heavy losses in the next quarter.

While there's no escaping the natural business cycles of an industry, and airlines are incredibly susceptible to events outside their control, such as weather or political turmoil, airlines in the past would rarely put cash away for a rainy day. A record-breaking profit in one quarter was seen as the new norm, and airlines would spend on new aircraft, livery, staff, and routes at once.

The current business cycle has served as one of the longest growth cycles in decades, and airlines such as Air Canada have matured to the point of progressing towards long-term goals of expansion

and upgrades over several quarters or even years rather than months.

## **2. Air Canada is in a unique position in the industry**

Air Canada is the largest airline in the country, and one of the largest on the continent. The past few years of growth have allowed Air Canada to invest smartly into a fleet renewal that will permit the airline to fly further with more passengers to more destinations using less fuel. Air Canada has even begun to plan out an expanded regional network, following the ultra-low-cost model that could serve as a feeder airline for cross-border and international service from major hub cities.

In addition to this, the economy is in a much better position than it was several years ago when Air Canada's stock started to take off. This translates into more customers with the funds available to fly where Air Canada can take them.

There's also the relatively low cost of fuel. Several years ago, fuel prices were more than double of what they cost today. That was a cost that Air Canada and others passed down to consumers in the form of fees, many of which still exist to this day.

When taking all of these into perspective, a unique opportunity for growth has materialized for Air Canada, which the company has capitalized on.

## **3. Air Canada's solid performance today is being reinvested into the future**

Over the past five-year period, Air Canada's stock has appreciated by over 1,350%. In the past year alone, the stock has doubled. As impressive as that figure sounds, there's an argument to be made that there could still be considerable growth for the airline in store over the next few quarters.

In the most recent quarter, Air Canada reported a record-breaking EBITDAR of \$670 million, representing an increase of \$65 million reported in the record-breaking EBITDAR from the previous quarter.

In terms of net income, Air Canada posted \$215 million, or \$0.78 per share diluted, in the most recent quarter, up from the \$203 million, or \$0.72 per share diluted, reported in the same quarter last year.

Air Canada is slated to release updated earnings later this week, and remains, in my opinion, a great investment opportunity for the growth-minded investor.

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