Air Canada’s Stock Could Take Off After Strong Q3 Results

Description

Air Canada (TSX:AC)(TSX:AC.B) reported its third-quarter results today, which saw the company make some new records, including operating revenues of $4.88 billion. Operating income of $1.004 billion was also a milestone for the airline and up 12% from the prior year.

Net income of $1.786 billion was more than double the $768 million that was recorded a year ago. The company also recorded an adjusted earnings per share of $3.43, which was significantly up from the $2.93 that Air Canada recorded a year ago.

Let’s take a closer look at the results to see whether or not the airline is a good buy today.

Increase in traffic drove strong growth in the top line

The airline saw a 9% increase in passenger revenues for the quarter result in a record $4.478 billion in sales. Traffic growth of 8.8% was the main driver behind Air Canada’s strong results.

This shouldn’t come as a big surprise for investors, as we’ve seen Air Canada, along with **WestJet Airlines Ltd.**, announce increased load and traffic numbers over the past few months.

Capacity and fuel prices push operating expenses higher

With higher traffic also comes more costs, and that is one area where the Airline saw its operating costs rise year over year. In total, operating expenses rose 9% in the quarter, and, in addition to capacity-related costs, fuel prices were higher from a year ago and also contributed to higher costs for the quarter.

One of the key metrics in the industry used is cost per available seat mile (CASM), and Air Canada saw this drop 0.1%, while adjusted CASM was down 2.1% and in accordance with the expected 1.5-2.5% improvement that the airline was expecting.

Income tax recovery a big reason for the strong bottom line

In yet another example of how net income results can be distorted, much of the impressive improvement in the company's bottom line came as a result of non-operating-related line items. In Q3, Air Canada saw a recovery of income taxes of $793 million, without which it would have seen a much smaller increase in total profit.

The company's income before taxes was a much more modest $993 million, and although it was still a strong 29% improvement year over year, it is a far cry from a 133% increase in net income.

Certainly, this does not take away from the quarter's strong performance, but it offers a reminder to investors of why reading the financials is important, rather than just the headlines.

Should you buy the stock today?

Air Canada continues to break records and is showing exceptional growth, as consumers continue to spend and travel. The stock is coming off all-time highs, but with a price-to-earnings multiple in the single digits, it still presents a good value investment.

Even though we've seen some increased competition from small airlines, the results speak for themselves and suggest that unless Air Canada would have to face off against an airline with similar strength and capital, it would likely not pose a significant risk to the company's strong market share.

The stock should see a strong performance on these results, and investors might be wise to buy shares today, because the airline shows no signs of slowing down.

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Date
2025/08/17
Date Created
2017/10/25
Author
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