



Air Canada: It's Just Turbulent Times — Buy the Dip

Description

Shares of **Air Canada** ([TSX:AC](#))(TSX:AC.B) have pulled back ~18% from its all-time high witnessed earlier last month for no real fundamental reason. The stock has been on quite the run, so I believe the current dip is simply a breather and an opportunity for long-term investors to initiate a position. Despite being one of the biggest gainers on the TSX over the past year, there's still a great deal of value to be had, and there's no reason to believe that the short-term dip is a sign of a longer-term slowdown, especially when considering Air Canada delivered record Q3 2017 results just a few weeks ago.

What is the real reason for the recent pullback?

Air Canada's third-quarter results beat analyst expectations, but investors were likely expecting nothing short of perfection. The company has been delivering fantastic quarters for quite some time now, and it appears that investors are starting to raise the bar for the high-flying airline.

Higher fuel prices caused Air Canada's operating expenses to jump by 9%, which likely underwhelmed many investors, but I think the ~20% peak-to-trough sell-off that followed was completely unwarranted, especially when you consider that the company is likely going to hit the high end of its original cash flow guidance for the year.

WestJet Airlines Ltd.'s (TSX:WJA) recently announced 2018 capacity plans and the launch of its ultra-low-cost (ULCC) airline Swoop, may be sending shivers down the spines of Air Canada investors. Many pundits have deemed Swoop as a "competitive weapon," and if that's the case, WestJet may be poised to make up for lost time next year, as its stock readies for takeoff.

Fellow Fool contributor Will Ashworth and I are both [bullish on WestJet's new ULCC](#), which may not just be a shorter-term catalyst that could drive the stock higher, but it could also allow the airline to become [more resilient once the next recession shows its ugly face](#).

Recessions are the worst enemy of the airlines. Their stocks tend to plunge harder than average, and the rebound time is substantially longer than your average discretionary stock, which is why I always warn investors to take profits off the table in the future and not hold the stock for the long haul.

Although WestJet is prepping for what I believe will be a solid 2018, I do not think Air Canada investors should be worried in the slightest. Management's long-term plan is going smoothly, and WestJet's interference is likely to be minimal over the medium term.

Bottom line

Investors appear to be worried, but I don't think these worries are justified. Air Canada is still a ridiculously cheap stock (3.41 price to earnings) that will enjoy a great deal of upside from current levels, even if WestJet shows signs of strength next year.

Foolish investors should strongly consider picking up shares on the current dip, because the current dip is nothing more than a bit of turbulence.

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