Is it Time to Part Ways With Air Canada?

Description

Investors in **Air Canada** (TSX:AC)(TSX:AC.B) shares have certainly enjoyed the ride they've been on for the past five or so years.

Since 2012, the value of Canada's largest airline has multiplied by an incredible 24-fold, as the company has done much to rid itself of problems that plagued it in the past.

A company long saddled with the overhang of a burdensome pension obligation finally seems to have shed itself of the nasty reputation most airline stocks carry, despite the promise of outsized gains should you be able to withstand the inherent volatility.

Yet, shares have been giving back some of those gains as of late, and that may be making some currently holding the stock more than a little jittery.

Air Canada is down a little more than 14% from its 10-year high of $28 per share the company reached in early October. Some of that pullback is likely owing the emerging trend of higher oil prices. The price of West Texas Intermediate Crude (WTIC) is up just under 16% over that same stretch.

Oil, or, to put it more accurately, jet fuel, is Air Canada's single biggest expense, so while the company has enjoyed a nice stretch of historically low fuel prices, that benefit may prove to be temporary.

Meanwhile, as the energy sector recovers, Canada's economy is beginning to regain its footing. While that is generally good, it could also lead to the Bank of Canada continuing on its path of higher interest rates.

And while a more "hawkish" central bank policy could add strength to the Canadian dollar — giving Canadians more purchasing power to travel abroad — it would also have negative effects on consumer spending.

And, for Canada, a country with the highest household indebtedness among OECD nations, a move to higher interest rates could prove particularly challenging.

Time to move away

Some may be drawn to the allure of a company that recently grew earnings per share (EPS) by 138% year over year and trades at a trailing price-to-earnings (P/E) multiple of just 3.6 times, as Air Canada does today.

Yet, in some respects, the company actually appears expensive relative to historical norms when looking at the relationship of the firm’s value to overall revenues or cash flows.

At the end the day, there are no free lunches when it comes to investing, and Foolish investors should be wise to think twice before jumping in after a “seems too good to be true” valuation. Sometimes, it just isn’t.

It’s hard to ignore the headwinds looming around the corner for this company — namely, higher interest rates and higher fuel costs.

It would seem that the market too is picking up on these very real threats with Air Canada shares having fallen below their 50-day moving average last month and showing little signs of life since then.

Stocks that go up make you money — not ones that go down. After a wild ride, it may finally be time to get off board Air Canada shares.

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