



Is Air Canada About to Nosedive?

Description

After an incredible upward run in 2017, **Air Canada** ([TSX:AC](#))(TSX:AC.B) shares have taken a step back, but I believe this pullback is a major buying opportunity for investors looking to capitalize on the next leg up. I find it hard to believe that Air Canada has reached terminal velocity and is coming back down for a landing. There's still plenty of upside that remains, and this recent dip is simply a bit of turbulence, which should not be cause for concern for investors who've been enjoying the ride up over the last two years.

Air Canada is down ~16% from 52-week highs and ~10% for the few weeks in 2018. Given that the airlines are incredibly cyclical, such a sudden decline may have investors reaching for barf bags, but before you make any impulse decisions, like [shorting Air Canada](#), let's look at some of the reasons why Air Canada has been flying lower over the past month and what to expect this year.

Unfortunately, Air Canada is slated to have higher expenses in 2018 thanks in part to investments to its insourced loyalty program (slated for a 2020 launch) and enhancements to the overall customer experience. With a 1.81 debt-to-equity ratio, Air Canada's debt is starting to become worrisome to some, and recent expenses may be alarming; however, these initiatives will result in an ample amount of cost savings down the road. It's short-term pain for long-term gain, right?

Also, there are no signs of a drastically slowing economy, so all signs point to continued growth in 2018 and beyond, which remains promising news for the airlines. Despite upped expenses for the betterment of the company's future cost savings and hefty debt load, Air Canada is likely to experience another solid year of market-beating gains, as its cash flows go towards paying back the debt that may be [ringing alarm bells in the ears of prospective investors](#).

Bottom line

Air Canada's still a cheap stock at 3.48 times trailing earnings. The company is spending to improve its long-term cost structure, which will allow it to better withstand the next recession.

Although still dangerously cyclical, Air Canada is still a great bet for medium-term investors who want to enjoy the ride from a continued cyclical upswing, which I believe is far from over. Don't expect

another year of +80% returns though, since the rise of ultra-low-cost carriers could cause a dent in Air Canada's top-line numbers.

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Date

2025/07/04

Date Created

2018/01/23

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