Why Air Canada Is up Over 3%

Description

Air Canada (TSX:AC)(TSX:AC.B), Canada's largest airline, announced its fiscal 2017 fourth-quarter and full-year earnings results this morning, and its stock has responded by rising over 3% at the open of the day's trading session. Let's break down the earnings results and the fundamentals of its stock to determine if we should be long-term buyers today.

The results that ignited the rally

Here's a breakdown of eight of the most notable statistics from Air Canada's three-month period ended December 31, 2017, compared with the same period in 2016:

Metric	Q4 2017	Q4 2016	Change
Operating revenues	$3,820 million	$3,425 million	11.5%
Earnings before interest, taxes, depreciation, amortization, impairment, and aircraft rent (EBITDAR), excluding special items	$521 million	$455 million	14.5%
EBITDAR margin, excluding special items	13.6%	13.3%	30-basis-point improvement
Adjusted net income	$61 million	$38 million	60.5%
Adjusted earnings per share (EPS) – diluted	$0.22	$0.14	57.1%
Net cash flows from operating activities	$389 million	$351 million	10.8%
Free cash flow (use)	($43 million)	$121 million	(>100%)
Revenue passengers carried (thousands)	11,314	10,719	5.6%

And here's a breakdown of eight notable statistics from Air Canada's 12-month period ended December 31, 2017, compared with the same period in 2016:

Metric	Fiscal 2017	Fiscal 2016	Change
Operating revenues	$16,252 million	$14,677 million	10.7%
EBITDAR, excluding special items	$2,921 million	$2,768 million	5.5%
EBITDAR margin, excluding special items	18.0%	18.9%	90-basis-point decline
Adjusted net income	$1,142 million	$1,147 million	(0.4%)
Adjusted EPS – diluted	$4.11	$4.06	1.2%
Net cash flows from operating activities	$2,738 million	$2,421 million	13.1%
Free cash flow	$1,056 million	($149 million)	>100%
Revenue passengers carried (thousands)	48,126	44,849	7.3%

Is there still time to buy?

The fourth quarter was outstanding overall for Air Canada, and the results surpassed the expectations of analyst polled by **Thomson Reuters**, which called for adjusted EPS of $0.14 on revenue of $3.745 billion. The fourth quarter also capped off a very strong year for the company, which was highlighted by record operating revenues, EBITDAR, and passengers carried.

With the great results above in mind, I think the market has responded correctly by sending its stock higher, and I think it still represents a very attractive long-term investment opportunity today for one fundamental reason in particular — it's incredibly undervalued; Air Canada's stock trades at just 6.1 times fiscal 2017's adjusted EPS of $4.11, which is incredibly inexpensive compared with its five-year average multiple of 19.9 and the industry average multiple of 11.9.

It's important to note that analysts currently expect a drop in EPS in 2018 to $3.47, which can be partially attributed to the company's expectation for increased expenses related to depreciation, amortization, and impairment, employee benefits, and aircraft maintenance, but even then its stock trades at just 7.2 times this estimate.

Air Canada's stock has returned more than 110% since I first recommended it on February 11, 2015, and I think it's still a strong buy today, so take a closer look and consider initiating a long-term position.

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