# What's Stopping Air Canada Stock From Breaking Out to New Highs?

## Description

It seems the party for Canada's airline stocks is over, at least for now.

After surging 87% in 2017 and reaching a record high last month, the share price of **Air Canada** (TSX:AC)(TSX:AC.B) has fallen more than 10% from a record high. **WestJet Airlines Ltd.** (TSX:WJA), another Canadian operator, is down 13% this year at the time of writing.



So, what has changed for the Canadian airline operators after such a remarkable rally last year that saw airline profitability touching a 20-year high? Let's have a deeper look at Air Canada, the industry leader, to see what's happening.

**Rising fuel costs**

The biggest factor keeping airline stocks under pressure is the surging fuel costs that account for about a third of airline expenses.

During the past four years, airlines have benefited from the depressed fuel prices amid a global supply glut. But that situation is changing with OPEC members successfully maintaining their supply controls.

Fuel costs have begun to rise at a time when Air Canada has embarked on one of the biggest expansions of its history by adding more routes and buying new planes. That expansion may reduce growth in its key performance metrics — revenue per available seat mile — because the airline needs to hire more employees.

"Some of the main tailwinds Canada's air transportation industry has benefited from in the past two years, primarily low fuel costs and a weaker loonie that is bolstering U.S. and foreign demand, will slowly reverse themselves over the next five years," according a study by Conference Board's economist Sabrina Bond published last week.

The expectations of slowing revenue growth and rising costs have so far not appeared in the company's latest earnings report.

Air Canada's profit more than doubled in 2017 after the operator opened new routes and flew a record number of passengers amid a sustained industry boom. The company added 30 routes globally last year, and its expanded international push helped it carry a record 48 million travelers, while boosting passenger revenue by 10%.

After such a stunning turnaround for an airline which emerged from creditor protection in 2004, the biggest challenge for CEO Calin Rovinescu is to sustain this growth momentum. He told analysts during the last earnings call that the company plans to cut spending by $250 million by the end of 2019 and will examine all areas of the company to find "real and sustainable" reductions in overhead.

**The bottom line**

Trading at $25.95, Air Canada stock is struggling to break above the all-time high that it reached in March. With the forward price-to-earnings multiple of just 6.45, its valuation looks attractive with the Street's consensus 12-month target of $33 a share. That said, airline stocks belong to a highly cyclical part of the economy and are only suitable for investors with a high risk tolerance. Investors interested in Air Canada stock should wait to see what the management has to say when it releases the first-quarter earnings report on April 30.



**CATEGORY**

1. Investing

**TICKERS GLOBAL**

1. TSX:AC (Air Canada)

**PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

**Category**

1. Investing

**Date**
2025/08/13
**Date Created**
2018/04/23
**Author**
hanwar