



## Is Air Canada (TSX:AC) Still Flying High Ahead of Q2 Results?

### Description

Over the course of the past five years, **Air Canada** ([TSX:AC](#))(TSX:AC.B) has outperformed the market and realized gains in excess of 900%.

That's an impressive gain over a relatively short amount of time in an industry that is often regarded as immature and reckless when it comes to spending. In fact, in a letter to shareholders back in 2007, Warren Buffett made reference to airlines: "The worst sort of business is one that grows rapidly, requires significant capital to engender the growth, and then earns little or no money. Think airlines."

To be fair, since then the Oracle of Omaha has invested upwards of US\$5 billion in some of the largest airlines in the U.S. and reaped significant gains, much like Air Canada's stellar performance has.

Turning to the Canadian market, both major airlines have performed just as well, if not better, as U.S. airlines over the past few years, and [comparisons of the two are common](#) among investors that are seeking the best possible returns.

So, what makes Air Canada such a good investment, and will the good times remain? Let's take a look.

### Why Air Canada is flying high

There really is no single reason that can be attributed to the superb performance of Air Canada over the past decade, but rather there is a variety of factors that created the current environment.

In the years following the 9/11 attacks, airlines were hit incredibly hard. This was not only from the fear of flying that was prevalent, but also from an overall downturn in the economy and a massive increase in fuel prices.

Airlines responded to the higher costs and lower revenue by adding on surcharges and reducing service on nearly everything they could. Before long, airlines had fuel surcharges in place, were charging passengers to check bags, and had greatly reduced, if not eliminated, outright meal service on a number of flights.

Fuel prices eventually bottomed out, but many of those fees remained in place — some remain to this day. The economy also improved, and in the recovery years following the Great Recession, airlines began to witness an increase in traffic, which provided Air Canada the opportunity to invest in other areas that would bring in even better results, such as renewing its aging fleet with more efficient planes and adding new international routes that would increase traffic and branding of the airline.

### **How is Air Canada doing?**

Air Canada is set to announce results for the second fiscal of 2018 this week, but going by prior performance indicators as well as the consensus estimates, the company should post an improvement over the first quarter.

In the first quarter, Air Canada reported EBITDAR of \$397 million, which surpassed the \$366 million reported in the same quarter last year. The company posted an operating loss in the quarter of \$14 million, which was an improvement over the same quarter in the prior year where Air Canada reported an operating loss of \$30 million.

Air Canada's first fiscal quarter is typically the most challenging on the calendar in terms of results, so the improvement in several notable areas, such as a capacity growth of 8.6% as well as an 11.4% increase in system passenger revenues, should be of particular interest when second-quarter numbers are released later this week.

### **What about growth?**

Air Canada is undergoing a massive transformation on all fronts. The airline is in the process of a multi-year fleet renewal; it will receive new 787 Dreamliner aircraft to replace aging jets in the fleet. Additionally, the airline is in the process of updating its livery across all planes and has announced a series of new international routes to previously unserved destinations, such as Romania, Melbourne, Australia, and Zagreb, Croatia.

In my opinion, Air Canada remains an [intriguing long-term growth prospect](#) for those investors looking to diversify their portfolios with an airline stock.

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### Date

2025/09/17

### Date Created

2018/07/26

### Author

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