



Why I'd Sell Air Canada (TSX:AC) Stock Ahead of Earnings

Description

There's been plenty of red on the markets lately, but there could be more bad news coming for airline stocks. While **Air Canada** ([TSX:AC](#))(TSX:AC.B) has been [doing well](#) over the past few years, there are some significant headwinds the airline is facing that could see the stock start to drop in price.

The first issue facing it and other airline stocks is a higher price of oil. Oil prices have been rising for much of the year, and although they are down over the past month, they are still well above last year's levels. And not only are there no signs of a big correction coming, there's a possibility that prices could rise amid geopolitical issues.

An elevated price of oil means higher input costs, which is going to result in smaller profits for the big airlines.

Another big headwind is the impact that rising interest rates will have on travel volumes. Higher interest costs for businesses and less disposable income for travelers will likely result in less business and leisure-related travel.

We've already seen things to start to slow down for Air Canada. In 2017, the airline generated an impressive \$2 billion in profit in 2017, although in recent quarters the company has found its way back into the red, despite sales continuing to climb.

Earnings coming up

Air Canada is expected to release its earnings this week, and with the company recording an impressive \$4.9 billion in sales and over \$1.7 billion profit last year in [Q3](#), it will have a tall task in not only beating those results, but even just matching them.

Given commodity prices and current economic conditions, I wouldn't be overly confident that the airline will be able to impress investors when it comes time to report.

Year to date, the stock has been down, and it is nowhere near the highs it reached earlier this year when it peaked at over \$29 a share. A disappointing earnings result could send the stock reeling even

further.

Bottom line

Investors that have owned Air Canada stock over the past few years have generated significant returns, but now might be the time to cash out. I suspect the stock has run out of steam, and it seems unlikely that we'll see it return to its previous highs.

There are simply too many factors working against the airline stock, and even though it may not be an expensive buy from a valuation perspective, history has shown us that this is not a stock nor an industry that investors are willing to pay any kind of premium for.

A big reason that the stock doesn't often trade at a big multiple to earnings is due to the volatility and the various factors outside its control that can impact the company's overall performance.

Although Air Canada is a dominant player in the industry with little competition, don't expect investors to get bullish on this stock, even if it has a good result. There are simply many better opportunities out there for investors to put their money in.

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

2025/07/07

Date Created

2018/10/30

Author

djagielski

default watermark