



Air Canada (TSX:AC) Stock Will Soar Again if This Happens

Description

While **Air Canada** ([TSX:AC](#))(TSX:AC.B) stock is down from its highs, it has significantly outperformed the [market](#), with a 5% fall from year-ago levels versus the market's more than 10% fall.

And with the [price of oil](#) down 15% in the last month, we can see why. Because for airlines like Air Canada, fuel cost is the single biggest expense at north of 30% of the total cost structure.

With oil hovering in the \$50 range now and possibly heading lower, what was becoming Air Canada's biggest problem is becoming its biggest opportunity.

So, for investors who believe that oil prices will continue to weaken from here, Air Canada is a good bet. Because then the company will have macro forces pushing the stock higher as well as company-specific successes.

Air Canada has continued to surpass expectations as the company continues to successfully transform itself into a profitable business through the cycles.

The company's focus on return on invested capital, which has hit as high as 15%, has been key to its performance, and while we can see that this trend is reversing recently (most recent guidance has come down to 12% from previous guidance of 13-16%), this focus on returns has slowly changed the investment thesis on the stock.

Let's review the top successes that have been driving Air Canada stock higher:

- Demand and capacity utilization have been strong, and the airliner has been able to raise fares without seeing a hit to traffic. In fact, in the third quarter of 2018 traffic increased 7.5%.
- Air Canada is still generating ample amounts of cash flow, with 2018 free cash flow generated expected to be as high as \$600 million.

And the company's strategy to transform itself has only just begun, with a focus on and investment in fleet modernization, international expansion, network diversification, and the roll out of Rouge.

Coming soon is product for premium product for the premium customer, which includes lie-flat “seats,” dining, valet, etc, which will drive growth for the airliner.

Final thoughts

Investors can expect Air Canada to continue to be more resilient than ever, and if oil prices continue to weaken from here, we have a big driver for Air Canada stock to soar once again.

But let’s not forget, although Air Canada has done it part in reducing its cyclical, it is still a cyclical company — one that will not fare well if and when consumers rein in their spending as a result of higher interest rates and heavy consumer debt loads.

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