



It's Unanimous: Air Canada's (TSX:AC) Stock Is a Buy

Description

The aviation industry is highly cyclical and not for the faint of heart. There are times however, when an investment in the industry can pay off in a big way. One stock that has the potential for outsized returns is **Air Canada** ([TSX:AC](#))(TSX:AC.B).

Air Canada is Canada's largest airline and the company is expecting a big year in 2019.

Positive outlook

In the past 12 quarters, Air Canada has beat earnings estimates by more than 2% on 10 occasions. It only missed once. This positive momentum is expected to continue through the end of fiscal 2018 and into 2019. To close out the year, management expects passenger revenue per available seat mile (PRASM) to improve over the fourth quarter of 2017. This is a key performance indicator, and it's expected to improve on both domestic and international basis.

In 2019, earnings before interest, taxes, depreciation, amortization, impairment and aircraft rent (EBITDAR) margins are expected to range between 17% and 20%. EBITDAR is a unique indicator to the industry as it includes aircraft rent. In comparison, the company average a 16.7% margin through the first nine months of 2018. Margin expansion should be a boon to profits. Analysts expect earnings to rise by 60% in 2019.

Technical breakout

Air Canada is on the verge of a technical breakout. The company has seven strong technical buy signals and 12 positive momentum indicators and there's not a single bearish indicator. At today's price of \$28.04, it is currently trading at the top end of its 52-week range. It is also approach blue sky breakout territory.

What is blue sky? If the company can break through its upwards resistance points, then there are few resistance points. As such, it can rise to new highs, where the sky is essentially the limit. This is a very positive bullish indicator. If Air Canada can continue [its strong momentum](#) and breakthrough its 52-

week high, the stock could soar.

Air Canada's stock is a strong buy

Recently, Air Canada was named one of **Bank of Montreal's** top 24 stocks to buy in 2019. It was identified as one of its Top Value stocks and Transportation analyst Fadi Chamoun identified three near-term catalysts: strong fourth quarter results, investors day and the Aeroplan loyalty program. Thomson/Reuters, which ranks stocks on earnings, fundamentals, valuation, risk and momentum has ranked Air Canada a perfect 10!

The company is almost a unanimous buy among analysts. Of the 16 covering the company, 15 rate the company a "buy" and one has it rated "market perform." The average one-year price target is \$36.87, which implies upwards potential of approximately 30% from today's price. Based on next year's expected earnings, Air Canada is trading at a cheap 8.5 times earnings and a P/E to growth (PEG) ratio of 0.3. Both metrics signify that the company's share price isn't keeping up with expected growth rates.

Foolish takeaway

Air Canada is carrying considerable momentum into 2019. It is important to note however, that the company still [carries a great deal of risk](#). It operates in a cyclical industry and the price of oil has a big impact on the company's bottom line. Despite this, it appears that now is the time to take a position in Canada's largest airline.

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