



Is it the Best Time to Buy Air Canada (TSX:AC) Stock?

Description

Air Canada ([TSX:AC](#))(TSX:AC.B) has started the year with strong momentum. Its shares have already risen 10% this year, surpassing the 7% expansion in the S&P/TSX Composite Index.

Is this strength an indicator that Canada's largest airline will continue to prove a successful bet in 2019? In my view, it will be a bumpy ride, and investors will be better off to take some profit and come back when its shares are more favourable.

The reason I'm against investing in highly cyclical stocks such as airlines, at least in the first half of this year, is that global economic picture is getting uncertain day by day.

The world's two largest economies — the U.S. and China — are embroiled in a bitter trade dispute, which has the potential to derail the global economy. After the arrest of Huawei CFO Meng Wanzhou? in Canada, the country is now directly involved in this dispute with implications for local companies, including Air Canada.

For airline stocks, a possible recession in 2019 would be devastating. Discretionary travel is usually among the first that faces a cut during the times of distress, and Air Canada is not immune to this possibility. In the company's latest earnings report, we're already seeing signs of weakness, and that may worsen if the macro environment doesn't improve.

On Oct. 31, Air Canada reported that net income fell 63% year over year. Excluding one-time items, adjusted earnings decreased 39% to \$561 million, or \$2.03 per diluted share, from \$922 million, or \$3.33 per share, a year earlier.

Surging prices of fuel in that quarter played a big role in the airline's dismal performance, but there is no visibility on that front either. Oil prices, after recording a more than 25% plunge since their October high, have moved up again as the oil cartel agrees to reduce the global output.

For the quarter that ended in December, analysts are expecting 36% decline in Air Canada's profit when compared to the same period a year ago, with sales rising 10% to \$4.21 billion. The company is scheduled to release its fourth-quarter earnings report on Feb. 15.

Bottom line

Air Canada has been [a great turnaround stock](#) that provided massive returns to investors during the past five years. But when headwinds are strong and the skies aren't clear, airline stocks have not proved a good investment. In my view, investors should trim their holdings of Air Canada and book some profits. After that, it's better to move on the sidelines and look for a better entry point when the dust is settled.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

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

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/07/19

Date Created

2019/01/29

Author

hanwar

default watermark