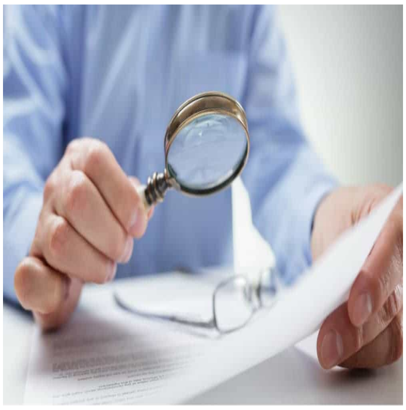

This Stock Is up 1,468% Over the Last Decade: Is It Too Late to Buy?

Description

The numbers are in, and the results are official. When looking at **TSX Composite Index** stock performance over the last decade, an interesting choice is on the top of the list.

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Air Canada (TSX:AC)(TSX:AC.B) has outperformed every other stock on Canada's top index since early 2009, soaring 1,468%. Performance over the last five years isn't quite as impressive, but shares are still up 303% since February, 2014.

To put it another way, Air Canada shares have rocketed from less than $2 each right after the financial crisis to $31.26 today.

You might remember Air Canada's place in the dog house earlier this decade. Investors hated the airline industry, Air Canada had persistent financial problems, and there were even whispers that the company would be filing for bankruptcy. These rumors lasted for years before finally subsiding.

Some investors see eye-popping returns and immediately jump in, wanting to get in on the party. Others will shy away, thinking the gains have already been made. Which group is right about Air Canada? Let's take a closer look.

The bull case

A decade ago, Air Canada was a company with all sorts of problems. Management has slowly solved almost all of them. It's quite impressive.

The pension shortfall has now been turned into a surplus. The company's fleet has been modernized. Union issues have been resolved and long-term contracts have been signed. And management has done all this while improving the balance sheet.

Now the company is in growth mode. Air Canada doesn't see much growth potential here at home, but there's plenty internationally. Certain smaller U.S. markets are an easy target, and the company is seeing strong numbers for Europe and Asia. Air Canada Rouge, its regional airline, has recently expanded into both European and South American flights.

Air Canada also recently reacquired Aeroplan, allowing it to once again have full control of its frequent flyer program. And increased usage of technology has allowed the company to increase efficiency and drive customer engagement.

Management has also done a nice job of cutting costs. New labour contracts have created cost certainty while various cost-cutting programs have saved millions. This has led to 6.1% decrease in cost available per seat mile over the last four years, which is exactly what investors want to see. One of Air Canada's criticisms over the years has been its higher costs.

The bear case

Like the rest of the industry, Air Canada was hit by higher fuel costs in the latter half of 2018. The company does have a hedging program in place, but it's a double-edged sword. Often a hybrid approach is used, which only helps to soften the blow.

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There's also some weakness in the domestic market, especially in and out of Western Canada. I keep an eye on prices on flights out of Calgary and it's obvious prices have come down on these flights recently.

And then there's valuation. For years Air Canada traded at 3-5 times earnings as investors handled the stock with plenty of pessimism. Things are a little different now, with shares trading hands at more than 25 times trailing earnings. Recent earnings were weighed down by various one-time charges, but the stock still trades at 8.1 times expected 2019 earnings. That's cheap when compared to the rest of the market, but expensive when compared to the stock 3-5 years ago.

Investors also need to remember that the airline industry is extremely cyclical. If Canada enters a recession, Air Canada shares will likely plunge with it. Even a small decline in the number of passengers will wreak havoc.

The bottom line

Air Canada's management has done an excellent job solving most of the company's previous problems. They deserve all the credit in the world and every nickel of their compensation.

But unfortunately for investors, we're unlikely to see another 1,468% return over the next decade because Air Canada just doesn't have many problems. The stock could still do well as it expands into new markets and continues to gain efficiencies, but don't expect the next decade to be anywhere close to as good as the previous one.

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