



## Is Air Canada (TSX:AC) Stock Overpriced?

### Description

**Air Canada** ([TSX:AC](#))(TSX:AC.B) stock fell 0.73% on March 6. Shares have surged 26.2% in 2019 so far, and the stock is up 22% year over year. Air Canada has soared along with the S&P/TSX Composite Index. In February, I'd explained why the [TSX Index looked overheated](#).

Can the same be said for Air Canada? The company's financials were stellar in 2018, and passenger traffic continues to post solid growth. However, there are potential risks on the horizon for the airline industry.

In January, I'd explained why the airline industry was [particularly vulnerable](#) during a recession. During the Great Recession, Air Canada entered a period of crisis. The stock plunged below the \$1 mark in 2009 and again in 2012. However, it has put together an impressive turnaround.

On March 31, 2009, former Air Canada CEO Montie Brewer left the company with \$1 billion in available liquidity. In the middle of the financial crisis, there was no guarantee that the company could climb out of its troubling position. At the end of 2018, Air Canada boasted unrestricted liquidity of \$5.72 billion. This represented an increase of \$1.54 billion from the prior year.

A slowdown would take its toll on the airline industry, but Air Canada finds itself in a much stronger position compared to a decade ago.

Air Canada released its fourth-quarter and full-year results for 2018 on February 15. The company reported record operating revenues of \$18.06 billion and a record fourth-quarter EBITDAR of \$543 million. Air Canada reported record system passenger revenues of \$16.22 billion, which was up 11.2% from 2017.

The company projected relatively modest growth for the Canadian economy in the first quarter of 2019, which may be optimistic after a subdued Q4 2018, which saw 0.4% GDP growth. Air Canada also forecast that jet fuel prices will average \$0.82 per litre in 2019. Jet fuel prices experienced a dip in late 2018 but have started to rebound in early 2019. This will be unwelcome news for airlines in the spring and summer.

Air Canada has overcome broader economic weakness in recent history, so these headwinds should not be a huge concern for investors in the near term. However, its stock is currently trading at the high end of its 52-week range. Is it overvalued right now?

Air Canada's forward P/E and P/B ratios rank it as one of the pricier equities in the airline sector. The stock last had an RSI of 57, which puts it outside overbought territory as of close on March 6. Shares were in technically overbought territory for most of February and only dropped out after this recent dip. The stock has declined 4.3% over the past week.

Investors should exercise caution and consider remaining on the sidelines in March rather than jumping into Air Canada at its current price. In my January article linked above, I'd suggested that Air Canada had some room to run, but its technicals suggest that it may have topped out in the near term.

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aocallaghan

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