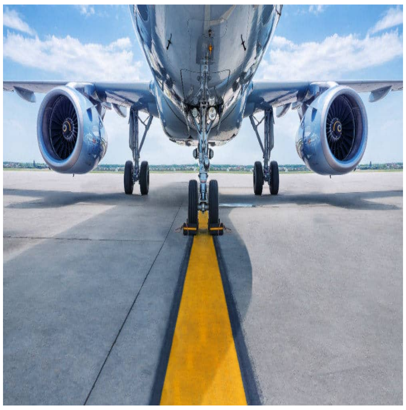

Growth Seekers: Should You Buy Air Canada (TSX:AC)?

Description

Air Canada (TSX:AC)(TSX:AC.B) remains one of the top-performing stocks on the market, which is an incredible feat considering the sheer number of opportunities the market has presented to us over the past few years, with legalization and e-commerce both providing investors with handsome double-digit gains.

By way of comparison, Air Canada's stock price has surged over 300% in the past five-year period, and so far in 2019, the stock has risen over 20%.

Why prior performance really matters with Air Canada

Airlines represent an expensive and, at times, very different type of business. They require highly specialized crews to maintain aircraft at both the arriving and departing airports, pilots, flight crew, gate agents, and other personnel on a staffing level. From a cost standpoint, there are landing fees, fuel costs and the cost of the aircraft itself to take into consideration. I'm not even going to touch on route-pairing, weather considerations, or political turmoil, all of which could wreak havoc on schedules and revenue.

In short, it's a very specialized and costly business, and that's part of the reason why airlines were historically viewed as notoriously bad long-term investments.

The past decade of positive gains across the airline sector has shown us that the industry has matured. Air Canada is no longer subject to the wildly swinging gains and losses with each quarter. Instead, we're seeing a prolonged period of growth and a planned approach to continue that growth for the next few years, even in the face of significant challenges.

Is Air Canada still a good investment?

There's plenty of uncertainty in the market at the moment, across a host of different fronts.

First and foremost is the economy itself. Interest rate hikes have ceased for the moment, and the economy appears to be cooling off on a number of different fronts, such as real estate, while consumer debt remains at all-time highs. If that trend continues and the economy is pushed into a recession, airline travel is often one of the first things to be cut from a budget.

Another point to mention is oil prices. Now that spring is here, consumers can expect fuel prices to begin creeping upwards, as they've done in past years. From Air Canada's perspective, jet fuel costs already make up a significant part of revenue, and that is only going to increase as prices continue their current trajectory.

Another headwind to note with revenue impact on Air Canada over the short term is the ongoing Max 8 issues. Air Canada has grounded its fleet of Max 8 aircraft until July, while a software fix to address a safety issue is updated. This has will likely continue to cause scheduling shifts across Air Canada's network, and the airline already announced it suspended its 2019 financial guidance.

What I like about Air Canada, and why I believe the company still has growth potential, are the initiatives the airline has done over the years, such as engaging in cost-cutting measures, refining its routes, and investing in a new, more efficient fleet. All of these measures were key to Air Canada's success and are likely to play a role in the airline's continued success, albeit at a slower pace.

In my opinion, Air Canada remains an intriguing investment option for those investors not adverse to risk that are looking for long-term growth.

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