



Why Air Canada (TSX:AC) Shares Are Up 25% Year to Date

Description

Air Canada ([TSX:AC](#))(TSX:AC.B) has been one of the best-performing TSX stocks over the past decade. Gaining [nearly 4000%](#) over the past seven years, it has been on an unprecedented bull run. This year, Canada's largest airline has shown no sign of slowing down, gaining another 25% in just a few short months.

Air Canada's rise comes after a series of setbacks in the 2000s that put it on the verge of insolvency. Mired by debt and a global recession, the company faced mounting bills and declining business at the same time. Since then, the company has become an ultra-profitable machine, with profit as high as \$2.2 billion in recent years.

It's all well and good to know that Air Canada is up again this year. The question is, why is it happening? To answer that question, we need to look at why Air Canada started its dramatic ascent seven years ago.

A dramatic turnaround

In 2012, you could have bought Air Canada shares for as little as \$0.80. Today, they trade for about \$32 for a seven-year gain of close to 4000%.

The reason Air Canada began rising from its 2012 low is that the company managed to save itself from the brink of catastrophe. In 2003, the company entered bankruptcy protection and faced a number of pension costs it couldn't cover.

Thus began the stock's long descent that continued through the 2000s. After receiving financing help from **Deutsche Bank**, the company managed to cover its pension obligations while working through its bankruptcy.

However, by 2009 it was still running losses. This began to change in 2012, when the company posted \$131 million in profit, which rose to over \$2 billion by 2017. A 1000% plus earnings growth trend doesn't go unnoticed, however, and it's very likely that this financial turnaround was responsible for Air

Canada's huge bull run.

A less competitive marketplace

Another possible contributor to Air Canada's rise is reduced competition in the airline sector. In the past, Air Travel was highly competitive, with airlines competing furiously against each other for business. This trend has cooled off somewhat, with U.S. airlines in particular having acquired many smaller competitors.

In Canada, the airline acquisition fury has been less pronounced, but Air Canada nevertheless benefits from an increasingly consolidated and cooperative market. For one thing, the company acquired its competitor Canadian Airlines in 2001. For another, it indirectly benefits from restrictions on foreign carriers operating in Canada.

Will the present trend continue?

The big question for anyone buying Air Canada right now is whether the present trend will continue. The company's 2018 annual report paints a mixed picture. On the one hand, revenues soared in 2018, reaching \$16 billion—up 11% from 2017.

On the other hand, GAAP net income was way down, falling to \$160 million from over \$2 billion in 2017. It's clear that Air Canada's sales are still ascending. The big question is whether [rising fuel costs](#) will eat into its margin enough to hurt earnings long term.

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