



Don't Bet Against Air Canada (TSX:AC) This Year

Description

In early March, I'd discussed whether **Air Canada** ([TSX:AC](#))(TSX:AC.B) stock was [overpriced](#) as winter was winding to a close. I'd concluded that shares were pricey and that it had likely topped out in the near term. However, its pricing drew more favourable as we entered April.

It was too hard to bet against an earnings disappointment, even as the broader industry faced headwinds. This was one of the reasons I [suggested adding the stock](#) as spring got underway.

Controversy and anxiety swirled around the aviation industry after the March 10th crash of Ethiopia Airlines Flight 302. This resulted in the widespread grounding of the **Boeing** 737 MAX8. Canada moved to ground the aircraft in the days following the crash.

Air Canada released its first-quarter results for 2019 on May 6. The company achieved record first-quarter operating revenues of \$4.453 billion, as the airline appeared to be largely unaffected by the crisis. Air Canada's EBITDA climbed to \$583 million in the first quarter compared to \$504 million in the prior year. Air Canada's balance sheet continues to impress and reported \$6.877 billion in liquidity. This is an amazing recovery when we reflect on the company's struggles a decade ago in the throes of the financial crisis.

The company reported record first-quarter system passenger revenues of \$3.816 billion, which represented a 9.4% increase from the prior year. Air Canada reported traffic growth of 4.2%. Operating expenses rose 9% year over year to \$4.326 billion, as fuel costs have rebounded in the first half of 2019. Air Canada projects that jet fuel will average \$0.84 per litre for the full year. The company also expects modest Canadian GDP growth for 2019. This may be a safe assumption considering the performance in the first months of the year.

How is Air Canada's value after its earnings release?

Air Canada stock hit an all-time high of \$36.71 in yesterday's trading session. Shares have climbed 39.8% in 2019 so far. The stock has soared 53% from the prior year.

Shares have a favourable P/E in comparison to industry competitors. The stock surged to an RSI of 75 as of close on May 8. This puts Air Canada solidly into technically overbought territory. However, in this hot market, investors should give some leeway. Air Canada has room to run after this stellar report.

Macroeconomic conditions should still concern investors who are seeking exposure to airlines. Air Canada has been able to outperform expectations in any and all conditions in this decade, but it will face new headwinds going forward. Canadian consumers are facing a gigantic debt load right now, and a prolonged economic slowdown will eat into confidence. Historically, airlines have been a highly vulnerable industry during turbulence economic periods.

That said, Air Canada has established itself as a powerhouse, even during slow economic periods in Canada in the 2010s. Investors jumping in today will be paying a premium, but Air Canada's momentum is impossible to ignore. The stock looks poised to challenge the \$50 mark in 2019.

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Date

2025/08/25

Date Created

2019/05/09

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