



## Should the 737-Max Grounding Defer Your Air Canada (TSX:AC) Investment?

### Description

When **Air Canada** ([TSX:AC](#))(TSX:AC.B) announced that it was going to suspend its 2019 financial guidance in the aftermath of the ongoing 737 MAX grounding, few investors thought that the stock would make a complete about-face and then surge over 10% since the announcement, but that's exactly what the stock did.

Here's a closer look at why Air Canada has taken off over the past two months, and what investors can expect looking forward.

### Air Canada is flying high

One of the primary reasons why Air Canada has surged has more to do with the recently announced earnings report, which surpassed expectations.

In the most recent quarter, Air Canada earned \$345 million, or \$1.26 per diluted share, which was a noted improvement over the dismal \$203 million loss, or \$0.74-per-diluted-share loss, reported in the same period last year. Operating revenue also realized a healthy bump to \$4.45 billion, surpassing the \$4.07 billion noted in the same quarter last year.

On an adjusted basis, Air Canada walked away with earnings of \$17 million, or \$0.06 per share, handily beating the adjusted \$26 million loss, or \$0.10-per-diluted-share loss, in the same quarter last year.

### It's not all good news though

Despite the positive results that Air Canada reported, the impact of the 737 Max is still very real. First and foremost, there's the cost of keeping the aircraft on the ground instead of in the air generating revenue. Air Canada CEO Michael Rousseau estimated that impact on seat capacity to be in the region of 3-4%, which is not only impacting Air Canada but airlines right across the world.

By way of example, in the most recent quarter, Air Canada canceled a whopping 8,000 flights, and Air Canada's Max 8 fleet comprised a fifth of the airline's narrow-body fleet, ferrying up to 12,000 passengers each day. Ouch.

To accommodate for those scheduling changes, Air Canada, like many other airlines, has been forced to put less-fuel-efficient aircraft back in service, which not only garner a higher fuel cost but can often lead to higher maintenance and crew costs as well. With fuel costs continuing to creep upwards, that impact will begin to be felt over the next two quarters.

## Should you buy Air Canada?

There's plenty to be optimistic on when contemplating investing in Air Canada. The airline has done a phenomenal job in recent years at re-branding itself and adding profitable routes that continue to draw in strong passenger numbers and, by extension, earnings. That's something that is unlikely to change in the near future.

Even the 737 Max issue will come to pass, and Air Canada recently noted a unique advantage over its other peers with grounded fleets: it is the only airline in North America that has a Max simulator, which means that the grounded pilots that have not already been re-routed to other aircraft are engaging in training to better prepare for flying the aircraft once a fix is released.

In my opinion, Air Canada remains a stellar long-term investment option, and while the 737 Max fallout will eventually take a bit from future earnings, there is no doubt that Air Canada will overcome that challenge over the long term. The key message to note from that statement is *long-term* — investors with a shorter time period may want to peruse any number of other [promising investments](#) on the market, many of which [offer tasty dividends](#) as well.

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