Air Canada (TSX:AC): Time to Buy, Sell, or Hold the Stock?

Description

Air Canada (TSX:AC)(TSX:AC.B) stock has had an eye-popping run this year. Its stock has surged more than 57% so far this year, riding through a rally that doesn't seem to be stopping any time soon.

The latest catalyst that powered its stock was the announcement last week. Air Canada said it was in exclusive talks to buy one of the country's largest travel tour operators, **Transat A.T.**, for about $520 million. Air Canada is paying $13 a share for the Montreal-based company — a 23% premium to Transat's closing share price May 15.

"A combination with Transat represents a great opportunity for stakeholders of both companies," Calin Rovinescu, Air Canada's chief executive officer, said in the statement. "The acquisition presents a unique opportunity to compete with the very best in the world when it comes to leisure travel. It will also allow us to further grow our hub at Montréal-Trudeau Airport."

No doubt, this is a great deal for Air Canada at a time when the Canadian airline industry is going through a big consolidation, and the competition is going to get tougher. Just before the Transat news, Canada's second-largest carrier, **WestJet Airlines**, agreed to be acquired by the Canadian private equity firm **Onex** for $3.5 billion in cash. The offer from Toronto-based Onex was at a 67% premium to WestJet's stock price.

What could derail Air Canada stock's rally?

But the big question for long-term investors is whether this is a good time to buy Air Canada stock after such a powerful rally. In my view, Air Canada stock is vulnerable to at least two near-term threats that investors should keep in mind before buying Air Canada stock in this late cycle.

First, it's not clear yet how long will take for the **Boeing** 737 Max grounding to end. The operator, earlier this month, said a prolonged grounding is expected to increase its unit cost, particularly heading towards the busy summer season.

The airline's chief financial officer Michael Rousseau cited a reduction of seat capacity of between 3% and 4% due to the grounding, which continues across the globe as the Max jetliner's flight control system remains under scrutiny following two deadly crashes.

The escalation between the U.S. and China trade war is another key risk that has the potential to cut the need of travel globally, and, more specifically, between China and Canada. In the latest conference call, Air Canada's chief commercial officer Lucie Guillemette said Canada's ongoing dispute with China stemming from the arrest of **Huawei** CFO Meng Wanzhou last year has hurt travel demand between the two countries.

Bottom line

Air Canada has been a great turnaround stock that has provided massive returns to investors during the past five years. But when headwinds are strong and the skies aren't clear, cyclical stocks, such as airlines, have not proved to be good investments. In my view, investors should trim their holdings of Air Canada and book some profits. After that, it's better to move on the sidelines and look for a better entry point when the dust is settled.

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