Is Air Canada (TSX:AC) a Buy?

Description

Though there has been some renewed interest in air travel safety over the past few months, that hasn't had a particularly negative effect on one of the largest Canadian airlines. **Air Canada** (TSX:AC)(TSX:AC.B) boasts very strong year-to-date returns. Of course, equity markets worldwide have been performing well, which probably explains at least some of the gains enjoyed by the airline.

However, the market is bound to tank at some point; when that happens, would it be wise to own shares of Air Canada? Let's dig in and see whether the airliner is a good long-term bet.

Core operations

Air Canada currently controls about 40% of the domestic market share. However, the firm faces stiff competition in international markets. South of the border, there are scores of mid-size airline companies that rival Air Canada in terms of the number of passengers served, the number of destinations, as well as revenues and earnings.

Thus, Air Canada constantly faces an uphill battle. One of the ways in which it plans on remaining competitive is by making acquisitions. The firm recently made an exclusive agreement to acquire **Transat AT** (which owns and operates Air Transat) for $520 million.

The acquisition should help bolster international operations and increase the firm's top line, especially since one of Air Canada's main competitors — **WestJet Airlines** — was recently acquired by a private equity firm.

This could lead to higher pricing in the Canadian air travel market. However, the increased moving parts in Air Canada's core operations could be a strain on its operating efficiency, so it isn't clear whether this move will be beneficial in the long run.

Further, rising fuel costs have been major headwinds for most Canadian airlines, and Air Canada is no exception. The firm has been forced to raise its prices to keep earnings afloat. Fuel prices will likely continue to be an issue moving forward, which is something investors should keep in mind.

Valuation

Air Canada has been a growth machine over the past few years. The firm's share price was under $3 in May of 2010 and is now worth around $40 (at writing). However, the future is what matters, and it is doubtful whether Air Canada's stock can defy gravity forever.

Still, the firm is currently trading for 15.70 trailing and 8.79 forward earnings, the latter of which is lower than the S&P/TSX Composite Index, and the former of which is low considering the airline's recent growth history. With a price-to-earnings growth ratio currently at 0.55, Air Canada may be trading at a bit of a discount.

Should you buy?

Air Canada seems to have decent growth prospects. Though the airline will have to contend with oil prices and the challenge of integrating its latest acquisition into its operations smoothly and efficiently, the firm will benefit in the form of higher fares and stronger international footprints.

Moreover, Air Canada is currently fairly valued, and while its share price's growth over the past few years isn't likely to be replicated, there seems to be enough left in the tank to make a decent run. Thus, Air Canada looks like a decent option for investors.

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Date
2025/09/16
Date Created
2019/05/27

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