



3 Reasons Not to Buy Air Canada (TSX:AC) Stock Right Now

Description

There were several positive takeaways to come out of **Air Canada's** ([TSX:AC](#))(TSX:AC.B) first-quarter earnings report.

But despite the fact that AC shares have gained more than 5,060% since 2012 and are [already up more than 53%](#) so far in 2019, here are three reasons why investors may want to hold off on a purchase in the stock of Canada's largest airline — if only for the time being.

Boeing 737 MAX aircraft grounding will prevent challenges for airlines in 2019

Following a decision by Transport Canada and other top government regulators, Air Canada announced in February it would be grounding its fleet of **Boeing** 737 MAX aircraft until further notice.

Air Canada's CEO Calin Rovinescu lavished praise on the company's staff in his first-quarter press release for their "can-do" mentality in response to dealing with the unexpected disruption, including procuring replacement aircraft and re-routing flights to cover customers pre-arranged travel plans.

Yet the reality is that the disruption the [Boeing grounding](#) will continue to present in 2019 — along with the additional costs that Air Canada has had to incur as part of its strategic response — and will more than likely have a material impact on this year's financial performance.

So, it shouldn't be all that surprising then that management already announced it's suspended its previously outlined earnings guidance for the 2019 fiscal year.

Despite progress, management still has a lot of work cut out for it

As part of the first-quarter earnings press release, management also made the announcement it had

been successful in realizing, or at least identifying, \$242 million (or 97%) of the \$250 million in savings it had previously targeted as part of its Cost Transformation Program set to conclude in December later this year.

But while cost savings have been identified, according to the credit-ratings agencies, there's still plenty of work left to do ahead of it.

Standard and Poor has upgraded the company's debt-rating during the first quarter, as did ratings agency Fitch; however, Air Canada's credit status still remains below its own internal goal of reaching "investment grade."

The airline has made some pretty significant investments over the past 12 months, including the purchase of Aeroplan's loyalty rewards program and a new capacity purchase agreement reached with smaller Canadian rival **Chorus Aviation** earlier this year.

One would have to imagine it will be difficult for AC to continue to make progress restoring its credit rating during 2019 in light of the challenges it's been presented as a result of Boeing 737 grounding.

How lucky are you feeling?

The last argument in favour of holding off on a purchase in AC stock, at least for now, is that in terms of the type of characteristics it offers, it would clearly fall into what world-famous billionaire Warren Buffett would call the "musical chair category."

Because this stock doesn't pay shareholders a regular dividend, the only way those shareholders can expect to make a profit on their investment is by selling their shares to another investor for more than they originally paid for them.

Sometimes, that's a strategy that works; other times, not so much. In light of the latest run up in the price of its stock, I think I'd be inclined to hold off on a purchase of AC stock, at least for now.

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