3 Reasons to Buy and Hold Air Canada (TSX:AC) Stock Forever

Description

Air Canada (TSX:AC) stock is soaring, up 55% since the start of the year. Should you buy the stock at this level? Here are three reasons Air Canada is an excellent choice for the buy-and-hold investor.

Air Canada's dominance

The Canadian airways are dominated by two carriers: Air Canada and **WestJet Airlines Ltd.** (TSX:WJA).

Yesterday it was announced that Air Canada, Canada's largest airline, will take over **Transat A.T. Inc.** (TSX:TRZ), Canada's third-largest airline. The two companies have been in negotiations for 30 days for a merger valued at $13 a share or $520 million.

In the news release, the companies said that they plan to maintain the two companies as separate entities and protect the different brands by leaving the head offices and critical functions in Montreal. This deal will give the combined companies approximately 60% of the air travel business in Canada.

Despite the higher bid from Montreal real estate developer Group Mach to buy Transat for $14 a share, the company's management inked the deal with Air Canada on Wednesday evening. The deal still requires approval by two-thirds of Transat shareholders, as well as legal and government approvals.

This acquisition comes on the heels of the agreement between WestJet and Onex, an investment management company. Last month WestJet and Onex entered into an agreement in which WestJet will receive $31 per share and operate as a privately held company. The total transaction cost is valued at $3.5 billion.

Earlier this week, Federal Transport Minister Marc Garneau greenlighted the deal. This hurdle was one of the regulatory challenges the companies faced prior to the deal proceeding. WestJet shareholders will be asked to approve the merger on July 23.

Acquisition eases concerns over Boeing 737 MAX

New concerns over the Boeing 737 MAX have surfaced. In a series of simulator flights to test new software designed to fix the problem with the plane's stabilization system, a flaw was discovered. The faulty stabilization system on the Boeing 737 MAX resulted in two plane crashes killing 346 people.

Of Air Canada's fleet of 400 aircraft, the Boeing 737 MAX makes up approximately 6%, transporting approximately 10,000 customers per day. The planes have been removed from Air Canada's lineup until at least September 2, 2019. The latest concerns with the revised system could delay the plane's reentry into Air Canada's fleet even later.

However, one of the benefits of the Transat deal is the company's newer Airbus fleet which could make Air Canada less dependent on the MAX 737.

Barriers to competition entering the field

Although there are smaller airlines attempting to disrupt the airline industry in Canada, most upstarts have failed. It is extremely difficult for new airlines to enter into Canada for two reasons: exorbitant costs and Air Canada's aggressive defense to competition.

The size of Air Canada's fleet makes it agile when it comes to responding to new competitors. For example, several years ago, when NewLeaf Airlines announced its schedule of flights, Air Canada immediately added new routes to mimic NewLeaf's planned flights.

In 2017 NewLeaf was purchased by Flair Airlines. Even though Flair doubled its number of routes last year, the airline flies only a fraction of the flights of its bigger rival.

Air Canada is a great stock for the long haul

Air Canada's deal with Transat gives Air Canada more leverage to charge customers higher prices for tickets. That's good news for shareholders but bad news for the flying public. No doubt Air Canada will maintain its status as Canada's official airline for the foreseeable future.

As of this writing, Air Canada stock is trading at $40.50, up almost 3% since the Transat news. The stock is near its all-time high. Anyone looking to invest in Air Canada should watch for any pullback in the stock and then load up. With no competition on the horizon, Air Canada is a great stock for the long haul.

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