



Should You Buy Air Canada?

Description

Airline stocks have enjoyed a phenomenal ride over the past few years. **Air Canada** ([TSX:AC](#)) in particular, has enjoyed gains of over 300% in the past three-year period. Currently, Air Canada is trading shy of \$42, just short of its 52-week high. Despite that current level, there's still significant upside for those investors looking to invest in Canada's largest airline.

Can Air Canada fly even higher?

Much of Air Canada's recent gain can be attributed back to two separate, yet related events that [shook the Canadian airline industry](#). The first was the announcement that Air Canada's primary competitor in the Canadian market, **WestJet**, would be sold off and taken private in a multi-billion dollar deal, which leaves investors searching for a Canadian airline investment with fewer options to consider.

The second announcement was Air Canada's own move to acquire the third-largest airline in the country, **Transat A.T.** Transat's scheduled and charter flight network dovetails nicely somewhere between Air Canada's primary service and its Rouge network.

Long-term investors should see this deal as holding massive potential for the airline that comes in the form of less competition, higher airline fees, and access to a larger route network. I won't even touch the potential synergies that could stem from a deal of this size, but needless to say, they could be huge.

Another record-breaking quarter

The most recent quarterly update Air Canada provided was back in May for the first fiscal of 2019. In that quarter, Air Canada reported operating income of \$127 million, surpassing the \$86 million reported in the same period last year. Revenue for the quarter came in at a record-breaking amount of \$4.453 billion, reflecting an improvement of \$382 million over the same quarter last year.

Most impressively, the airline reported net income of \$345 million for the quarter, handily being the \$203 million loss reported last year. Free cash flow came in at \$579 million during the first quarter,

surpassing the \$318 million posted in the first quarter of fiscal 2018.

The much-improved results were attributed to a variety of factors, such as increases in system passenger revenues and overall traffic, as well as the airline's commitment to cost-cutting. Finally, Air Canada's efforts at lowering the net debt also bore fruit in the quarter, with the airline realizing a drop in net debt of \$1,731 million over the same period last year.

Final thoughts

No investment is without risk, and the airline industry has had more than its share of pullbacks over the years. Keeping that risk in mind, there are plenty of reasons to be optimistic about having Air Canada form part of your portfolio. Chief among those reasons is the unlocked potential stemming from Air Canada's now approved purchase for Air Transat, as well as further improvements in the airline's financial position.

In my opinion, Air Canada remains a great addition to any long-term portfolio. [Buy it now and hold it](#) for a decade.

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