13 Years After Its IPO, Where Will Air Canada Be in Another 13 Years?

Description

Air Canada (TSX:AC) has to be one of the best turnaround stories in the last few years. Since its initial public offering (IPO) in November 2006 when the stock came on the market at $18.75 per share, the stock seemed to simply sink further and further until its lowest point in 2012, when shares hit rock bottom at around $0.80 per share.

Since then, the stock has done nothing but increase further and further. Year to date, shares are up an incredible 71% to where it trades at writing at $44.29.

This comes after a solid first-quarter report, where Air Canada went from reporting a net loss of $203 million in the first quarter of last year, to a net income of $345 million in the first quarter of this year.

But while I like this stock now, it has definitely been quite the decade and a bit, and analysts aren't 100% sure Air Canada can keep soaring upwards for the long term.

Let's look into whether Air Canada belongs in your long-term portfolio or if now is the time to sell at all-time highs.

To understand where Air Canada could be another 13 years from now, we have to look at the Canadian airline industry as a whole. The airline industry could be in for a bit of a rude awakening in the near future.

After years of increasing capacity at rates higher to GDP, the industry might face diminishing returns compared to what its invested. Return on investment could come in at 7.4% for 2019 for the airline industry according to one report, which would only just cover the cost of capital.

That would mean only generating $0.7 billion of value for investors on $700 billion worth of investments.

Then there are the trade wars and tariffs that keep popping up. This is a big problem for companies like Air Canada which still rely on cargo revenue, and could see those global prospects decline as well.

Finally, there is also the rising cost of jet fuel, which could make up 25% of operating costs for airlines.

This is a big problem for Air Canada at the moment, as the company's fuel-efficient 737-MAXs have been grounded for the time being.

So this all spells a lot of gloom and doom moving forward, and frankly investors might be in for a bit of turbulence in the next few years. But there is definitely some light peeking through the clouds for the long-term Air Canada investor.

Air Canada's recent acquisition of Aeroplan is certainly a help should the company be hit by an economic downturn. By leveraging Aeroplan's customers, Air Canada should be able to come out the other end with a superior pricing strategy.

This shift marks the company's move away from investment toward returns. Profits should continue to improve as the loyalty program gives the company a boost and the recent investment into the new air fleet hits the air.

In fact, as soon as the grounding of the 737 MAX aircrafts is over, Air Canada should see a significant boost moving forward. Then of course there is the purchase of **Transat**, which should strengthen Air Canada's position as the country's most dominant airline.

Air Canada will gain customers, new destinations, connecting traffic, and more from the merger.

Flying high in '32

In another 13 years, Air Canada should have solidified itself as the leading Canadian airline, with a low cost fleet that should put it well ahead of competitors.

While the next few years might be a bit daunting due to outside factors, none of these factors relate to the company itself, as the lower stock price had in the past.

That said, I would wait for a dip before investing in this stock. While the stock could hit as high as $50 per share in the next 12 months, at this point it's a bit of a risk to buy up shares of Air Canada.

Waiting for a dip gives you the best opportunity to make a killing, especially if you're willing to wait it out. For Air Canada, I think it's worth it.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/09/16
Date Created
2019/07/22
Author
alegatewolfe