# Should You Be Worried if You Own Air Canada (TSX:AC)?

### Description

Investors who focus on gains through capital appreciation look for companies whose earnings are expected to grow at a rate faster than average. While such companies often deliver market-beating returns, they all end up stumbling at some point, at least momentarily, which creates an opportunity for investors to jump on board. With that in mind, let's consider the case of **Air Canada** (TSX:AC )(TSX:AC.B).



The firm has been providing market-shattering returns in recent years. Over the past five years, shares of the Montreal-based airlines have delivered a compound annual growth rate of about 35%, which easily beats that of the S&P/TSX Composite Index over the same period. As Air Canada has shown few signs of slowing down, one has to think the company is bound to stumble at some point.

## What could go wrong for Air Canada?

Earnings growth has been one of the main engines driving Air Canada's recent success. To increase its bottom line, the company has focused on improving its capacity (thereby serving more customers) and enhancing its margins. However, the largest Canadian airline risks incurring higher costs going forward — worries that became crystal clear last year.

One reason for this was the passage of a bill called C-49 that amended Canada's Transportation Act. This change places a heavy burden on airline companies (among other transportation industries), which are now under more scrutiny, as one of the goals of the bill was to increase transparency in the industry. Airline companies are now required to gather more data on flight performance, baggage claims, customer satisfaction, etc., thus adding to the expenses and costs incurred by these airlines.

Air Canada predicted a 2-3% increase in its cost per available seat mile this year compared to fiscal year 2018. Of course, the airline is subject to other obstacles that the industry as a whole faces. These include fuel prices, general economic conditions (air travel is much more popular when the economy is booming), and more. In particular, various political and economic issues south of the border, such as trade wars and tariffs, risk having a negative impact on many industries, including the air travel industry.

In spite of these potential headwinds, the company seems very confident; CEO of Air Canada Calin Rovinescu said the following when the company reported its 2018 fourth-quarter results: "Despite all of the backdrop of the noise that we hear about fears of a recession and the trade wars and the rest of it, we do see a fairly strong and bullish market."

## The bottom line

There are certainly economic concerns that investors interested in purchasing shares of Air Canada need to be aware of. However, the firm still has solid growth prospects. Further, Air Canada is trading at just 9.55 times future earnings — an excellent valuation, especially considering its recent run on the market. Though there will be bumps in the way, Air Canada still looks like an interesting option.



**CATEGORY**

1. Investing

**POST TAG**

1. Editor's Choice

**TICKERS GLOBAL**

1. TSX:AC (Air Canada)

**PARTNER-FEEDS**

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

**Category**

1. Investing

**Tags**

1. Editor's Choice

**Date**
2025/08/15
**Date Created**

2019/07/23
**Author**
pbakiny