Should You Buy Air Canada (TSX:AC) Right Now?

Description

Does your portfolio contain any airline investments? Historically, airlines have been notorious for running either huge profits or massive losses, with a swing from one to the other a common theme that could occur with each passing quarter.

For **Air Canada** (TSX:AC)(TSX:AC.B) the past decade has seen the airline mature from that swinging pendulum type of business into a profitable and growing business that has provided investors with a jaw-dropping return of over 380% in the past five years.

Here's why I think that growth will continue.

The airline model has matured in the past decade

The volatile swings that airlines frequently saw over a decade ago was a symptom of a complex business that needed to mature.

For Air Canada, that couldn't be further from the truth. From operating inefficient, full-guzzling aircraft to flying larger aircraft on routes that would rarely operate near capacity, there was plenty of room for improvement.

Today, Air Canada operates newer, highly efficient aircraft on a growing number of in-demand routes. By way of example, last week Air Canada announced a new Toronto-Brussels flight on one of the airline's new Dreamliner aircraft.

In a similar vein, Air Canada also announced recently that next spring the airline will begin receiving its new A220 aircraft, which will be used on cross-border routes into the U.S. The A220 (previously known as the CSeries), offers better fuel efficiency and range over its peers in the sub-150 passenger market.

Part of that maturity is also coping with issues as they arise. Air Canada's fleet of 737-Max aircraft remain grounded for at least a few more months, but most investors may not realize that considering the recent quarterly update.

Quarterly results are in

Air Canada reported second-quarter results for fiscal 2019 earlier this summer, which were, in a word, impressive. Operating revenues hit $4.757 billion in the quarter, establishing a new record for the company. Passenger revenues saw a 10.7% increase over the prior period, while capacity growth saw a 2.3% uptick.

EBITDA for the second quarter came in at $916 million, reflecting a solid increase over the $739 million reported in the same quarter last year. On an adjusted basis, net income in the quarter was $240 million, or $0.88 per diluted share, compared with the $129 million, or $0.47 per diluted share, reported in the same quarter last year.

Should you buy?

I'm not going to skirt around the potential risk in buying Air Canada. One of the first things that consumers will cut back on when the market cools is travel, and many investors now see a market slowdown coming within the next year.

What that means is that Air Canada may not appeal to investors with shorter investment timelines, who are best left to consider other more defensive investments.

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