TFSA and RRSP Investors: Own This Cheap Airline and Value Stock

Description

Air Canada (TSX:AC)(TSX:ACB) is the largest provider of scheduled passenger services in the Canadian market, the Canada-U.S. transborder market and in the international market. In 2018, the company operated 1,613 daily flights to 222 direct destinations on six continents.

Air Canada operates 184 air crafts and carried 50.9 million passengers, an increase of 5.8% year over year. Air Canada enhances the company's network through capacity purchase agreements with regional airlines, which form an integral part of the airline's international network strategy, providing valuable traffic feed to Air Canada and Air Canada Rouge routes.

The company is fairly valued with a price to earnings ratio of 12.36, price to book ratio of 3.26 and market capitalization of 13.49 billion.

Debt is high at Air Canada, as is evidenced by a debt to equity ratio of 2.31. The company has excellent performance metrics with an operating margin of 21.52% and a return on equity of 18.31%.

Air Canada is a founding member of the Star Alliance network. Through the 28-member airline network, Air Canada offers customers participation in frequent flyer programs and the use of airport lounges and other common airport facilities.

Air Canada Cargo, Canada's largest provider of air cargo services, provides direct cargo services to over 150 Canadian, U.S. transborder and international destinations.

Air Canada's faced many challenges last year, including significantly higher fuel costs and trade uncertainty. Despite this, however, the company strengthened the balance sheet, expanded the global franchise and outperformed the **Toronto Composite Index**. Shares have now returned more than 4,000% over the last decade.

Air Canada generated record operating revenue of $18 billion in 2018 and generated free cash flow of $791 million. The company increased passenger revenue in all markets and has achieved nine consecutive years of revenue growth and controlled costs, which has steadily declined as measured by cost per available seat mile.

Debt has also steadily declined. The company's weighted average cost of capital is 7.2%, which is 540 basis points lower than the return on invested capital of 12.6%, resulting in continued value creation.

The company launched 29 new routes last year and expects to continue to add new international routes where margins are higher and to further diversify operations.

The company also undertook several projects to streamline airport connection processes, notably with new measures to save connecting and save customers significant time on customs and baggage retrieval. These efforts resulted in the company growing connecting traffic by 142%.

The company has forged close partnerships with other carriers and formed two joint ventures with United Airlines and Air China. Air Canada expects to have a first mover advantage in the growing Chinese air transport market, which is expected to become the world's largest by 2022.

The company has also launched the Air Canada Signature Service that provided superior curb-to-curb services for premium customers travelling internationally and on select transcontinental itineraries.

Air Canada has also expanded onboard connectivity to international flights and opened three new Maple Leaf Lounges.The company appears to be an excellent way to gain portfolio exposure to the growing Chinese air transport market that's set to experience fast growth over the next few years.

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