3 Reasons Air Canada (TSX:AC) Stock Can Soar to New Highs in 2020

Description

The Canadian airline industry has long been dominated by the two main rivals, **Air Canada** (TSX:AC)(TSX:AC.B) and **WestJet.**

While this previously resulted in heavy competition that made it difficult for either company to be profitable, today the competition is a big motivator for companies to find efficiencies to remain competitive.

Technology has played a major factor in airlines' ability to generate profits, and better allocation of assets coupled with more efficient aircraft has resulted in record growth in the industry globally.

Although WestJet is a worthy competitor, in Canada the industry is still dominated by Air Canada and the continued growth in demand for air travel is what makes the industry such a great investment.

Air Canada is a great choice for an airline investment for three main reasons heading into 2020. The company has proven over the last year to have extremely resilient operations, which have helped it to reach record sales.

It's also been improving its financials considerably as well as making strong acquisitions with the aim of improving its position in this high-growth industry.

Resilient operations

The company reported record revenue in the third quarter despite the 737 Max grounding affecting 36 planes in its fleet. In total, it's a roughly 2.1% hit to Air Canada's capacity, as well as incurring normal operating costs such as depreciation without earning any revenue.

The grounding also impacts Air Canada's efficiency, as it has to fly planes on routes that aren't optimal to their design, rendering it more costly and impacting its overall profitability.

Despite these major issues, however, Air Canada was able to grow its revenue by nearly 3% in the quarter from the same period a year ago.

It also managed to grow its earnings before interest, taxes, depreciation and amortization (EBITDA) by 9% over the same quarter in 2018, far exceeding the 5% target it set for itself.

Its strong operations that have resulted in growing profits have given Air Canada a tonne of flexibility in how it wants to use its capital and reduce its debt.

Improving financials

For some time, Air Canada had a major debt issue, which was one of the reasons why its stock was so depressed only a few years ago.

However, Air Canada has recently made major strides to reduce its debt and significantly strengthen its balance sheet.

From the end of 2018 up until the end of its third quarter, Air Canada reduced its leverage ratio by 50%.

It set a long-term goal of reaching investment grade status and has improved its debt enough that it's already been promoted to the credit rating just below investment grade.

Strong acquisitions

On the acquisition side, Air Canada's Aeroplan acquisition, which closed in early 2019, will lead to new customer growth. Its acquisition of Transat A.T. Inc, which got 95% shareholder approval in the vote, will offer big opportunities for the company going forward.

The Aeroplan acquisition is key because it adds an existing high-quality loyalty program to Air Canada's current program that it's building out in addition to bringing in a number of new customers.

The Transat acquisition will be a natural fit for Air Canada, taking over another well-run Canadian operator with a strong footing in the vacation segment of the air travel industry.

There's no doubt that Air Canada will look for as many synergies as it can and work to optimize all the routes and planes it gains when the acquisition goes through.

Bottom line

Air Canada's resilient operations, strong financials and new acquisitions will all play a major role in its growth going forward. The company expects to generate a more than 15% return on invested capital in 2020.

Air travel only continues to grow in popularity, and Air Canada is a major company in that sector, with large market share and numerous strategic partners spanning the globe.

It's proven to have rock-solid operations that can overcome the worst of circumstances.

With its inevitable growth in its business over the coming years, there's no reason a stock that's trading at a price to earnings ratio of just 12.5 times shouldn't continue to grow to new highs.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date
2025/08/28
Date Created
2019/12/31
Author
danieldacosta