



Air Canada (TSX:AC): How Long Will the Growth Story Last?

Description

There is much to admire about **Air Canada** ([TSX:AC](#))(TSX:AC.B). The airline company has been on a tear in recent years with returns that have easily outpaced that of the broader market. Air Canada's stock climbed by more than 400% since mid-2014.

However, the company's pace [slowed considerably during the month of August](#) — even after withstanding the recent troubles in the stock market.

While there are reasons to be optimistic about the firm's prospects, there are also reasons to think Air Canada's growth story may be coming to an end. Let's see whether the Canadian airline giant is a stock worth investing in at the moment.

Air Transat acquisition

Back in June, Air Canada and **Air Transat** — which is Canada's third largest airline company — agreed to a merger that would see Air Canada buy Transat for \$13 per share, which amounts to a valuation of about \$520 million.

Despite looking relatively good on the surface, this agreement has been rocked by a string of negative press and bad news. First, many analysts argue that this acquisition goes against the interest of the consumers.

Air Transat is, after all, one of Air Canada's main competitors, and the two companies even have a similar business model (they both offer low cost options), and their routes overlap somewhat significantly.

Though the firms originally claimed they would keep operating as separate entities, there is no guarantee that will be the case. Second, Air Canada had to raise its bid from \$13 to \$18 in August to shake off a bid a third party made to acquire Transat.

As we speak, the relevant authorities still haven't given formal approval for the proposed takeover, and

with consumer concerns on many people's minds, it doesn't seem like a forgone conclusion that approval will be granted.

Nevertheless, if this deal goes through, Air Canada will have another powerful growth engine at its disposal.

More reasons to worry

Here is some more bad news for Air Canada and for the airline industry as a whole: a recession might be on its way. The inverted yield curve — which was observed earlier this year — has preceded every major recession in the U.S. over the past few decades.

During a recession, consumer spending tends to drop, and the average person spends less on things like travel and vacations, which would obviously have an effect on airline companies. Further, Air Canada and its peers could also fall prey to volatile oil prices.

Cost of fuel accounts for the bulk of the spending of most major airline firms, which means the pricier it gets the lower their earnings, all else remaining equal. These headwinds could have a major impact on Air Canada moving forward.

The bottom line

Air Canada has performed well year to date. The firm's shares are up by about 66% since early January (at writing). However, the recent headwinds the firm has experienced — coupled with its stock price remaining flat since mid-August — might be an indicator that there is more trouble ahead for Air Canada. Though the airline company still looks relatively attractive, it might be best to wait and see how things develop.

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Date

2025/08/15
Date Created
2019/09/30
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