BREAKING: Air Canada (TSX:AC) Loses $1.05 BILLION in the 1st Quarter!

Description

The numbers are finally in.

After a period that saw it cut 90% of its routes amid a global pandemic, **Air Canada** (TSX:AC) has released its Q1 earnings.

They're not pretty.

In the first quarter, AC lost $1.05 *billion* compared to a $345 million profit in Q1 2019. The company also ended its 27-year streak of revenue growth and saw its liquidity decrease significantly. Everybody knew AC's Q1 earnings were going to be bad, but these results were really something else. I'll explore what they mean for investors shortly. First, let's dig into the company's revenue and earnings metrics in more detail.

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Revenue and earnings metrics

All of Air Canada's revenue and earnings metrics were down in Q1. Revenue declined to $3.7 billion from $4.4 billion. Net income declined to $-1.05 billion from $345 million. Operating income declined to $-433 million from $127 million. Cash from operating activities declined to a $20 million net outflow from a $3.1 billion net inflow.

It goes without saying that these are some ugly metrics. To an extent, they were expected: with 90% of its flights cancelled, how could Air Canada *not* lose money?

What's really amazing, though, is that this happened when COVID-19 travel restrictions only really got underway in March. As late as mid-February, Air Canada was operating as normal. So, all the damage highlighted above was caused by just a month of cancelled flights. If travel restrictions remain in effect for all of Q2, the carnage will be really horrifying to witness.

Liquidity

Another sore spot in Air Canada's Q1 report was its liquidity position. In Q1, unrestricted liquidity fell to $6.5 billion from $7 billion. Unrestricted liquidity refers to "unencumbered assets" that can be used to support financing.

That a single month of COVID-19 carnage caused a $500 million decline in liquidity is a big concern. It suggests that the company could have to start borrowing heavily in Q2 to stay afloat. This is corroborated by Warren Buffett's recent comments on U.S. airlines: he believes they'll end up having to borrow $10-$12 billion each or else dilute equity with share issuance.

Foolish takeaway

After months of speculation, investors have finally seen Air Canada's first-quarter earnings. As of this writing, markets were still not open on Monday, so the reaction is as yet uncertain. But it seems like a foregone conclusion that AC shares are going to tank. Q1's numbers were extremely bad, and Q2 will likely be worse. The second quarter is likely to see a full three months of cancelled flights compared to just a month of heavy cancellations in the first. That's not going to end well.

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And that's not just my opinion, either. Warren Buffett recently sold his entire position in airline stocks, citing the possibility of prolonged weakness in travel. Even after COVID-19 travel restrictions are eased, it's not clear that passengers will resume their previous travel habits. That's bad news for airlines all over the world, including Air Canada.

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