Why Air Canada (TSX:AC) Stock Fell Almost 10% Today

Description

Air Canada (TSX:AC) stock is feeling the pain today in what management is calling "the darkest period ever in aviation." Air Canada's earnings were released today, and the numbers are grim. The first quarter was impacted by the shutdown, which began in March and escalated into April. The future has no visibility, and the carnage will escalate in the second quarter.

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Air Canada stock's earnings and outlook weigh on the stock

Air Canada stock's price has fallen 64% from January levels, as the coronavirus has stripped away all airline traffic demand. While we all knew this was coming, the numbers and commentary from the company drives it home. First-quarter EBITDA of $70 million and a net operating loss of $443 million offer a glimpse of what's to come.

Air Canada's run of 27 consecutive quarters of revenue growth feels like a distant memory now. According to management, it will take at least three years for the company to return to 2019 levels of revenue and capacity. But the feel of the first-quarter earnings call suggested that it could very well take much longer.

Second-quarter capacity will fall by 85-90% versus the first quarter. It will be down 70% versus last year. Air Canada is now talking burn rate. This is essentially an analysis of how long it will be before the company runs out of money.

Support for Air Canada stock will come from its liquidity

Air Canada exited the first quarter with a cash balance of $6.5 billion. This is the result of the company's excellent financial and operational management in the good times. Recent debt offerings have also been helpful, and the debt market remains open.

Finally, Air Canada is still waiting for help from the Canadian government. This help is fully expected, as the survival of Air Canada is in the interest of all of Canada. The U.S. and European airline industries have already received billions of dollars in aid packages from their respective governments.

Air Canada stock: The future

Any opinion on Air Canada stock is fraught with risk, as visibility is ultra-low. An eventual recovery will take place, though, although management is only giving us their “best guesses.” This is what it comes to in times like these.

So, how will an eventual recovery look? For starters, we can expect domestic flights to resume first, followed by trans-border flights. We can expect business travel to recover as well, but this recovery will be tempered. Companies are adjusting to video conference meetings, and given the benefits of this, they may stick with it. In many cases, this is a less costly, more convenient and economic way to hold meetings.

With this recovery, we will see big changes in the flying process, from increased cleaning to temperature checks to greater distancing every step of the way. It will be a drastically changed world at least until a COVID-19 vaccine is developed, and maybe even longer. Air Canada stock is feeling the sting.

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Foolish bottom line

Air Canada stock will remain in hibernation with an 80-90% reduction in its flight schedule and a significant number of parked aircraft. Timing of a rebound is highly uncertain, as visibility in non-existent. Air Canada is survival mode, and Air Canada stock will continue to reflect this. Air Canada’s earnings result today confirms this.

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