



Air Canada's (TSX:AC) Q1 Earnings Are in and They Look Ugly

Description

Air Canada ([TSX:AC](#)) reported its first-quarter results earlier this month. The grim picture painted by those numbers was exactly what you'd expect. Even though everyone knew that airlines are getting decimated in this pandemic to see the extent of that damage translated in the numbers was still shocking. People who still have a stake in the airline might have lost some tiny shreds of hope they had left.

A net loss of \$1.049 billion in one quarter stands in stark comparison to the situation at the same time last year. In the first quarter of 2019, Air Canada generated a net income of \$345 million. The net loss of just the first quarter of 2020 is more than the net income generated in the second, third, and fourth quarter of 2019 combined.

Current situation

Air Canada's situation isn't unique. The business across the globe has been affected by this pandemic. Airlines across the border are experiencing even worse investor morale since famous investor Warren Buffett, who had a significant stake in four major airlines in the U.S., bailed on the industry.

Air Canada's management has stated that the current situation is worse than during the SARS outbreak in 2003, which was partly the reason the company went bankrupt in the Great Recession. Still, the company seems resolute to pull through the crises, even if it's by cutting its operational activities by 85-90%. The company dumped \$20 million in operational activities this quarter compared to earning \$3.1 billion in net cash flows from operating activities in the first quarter of 2019.

The debt has gotten worse. Net debt increased over \$1.3 billion from \$2.84 billion in 2019 to \$4.17 billion now. Two major reasons for that are the drawdown of Air Canada's revolving debt and a weaker currency, which has extrapolated the foreign debt numbers. The company's unrestricted liquidity has dropped down by about \$850 million from 2019.

Prospects

The company is doing all it can to pull through the pandemic, but the sad truth is that there are only so many hits this debt-laden institution can take. It overshot its cost savings by twice the amount, and it's expediting the retirement of 79 older aircraft, which is expected to reduce the bleeding of limited resources.

The company forecasts that it might suffer through at least three years of lower [operational activity](#) and, consequently, low income. And that's based on the current perceptions, that the pandemic and the fear that's keeping people from traveling will abate eventually. If we factor in the possibility of a second wave, of which many medical experts are warning, the prospects of Air Canada and airlines across the globe become significantly darker.

Foolish takeaway

In the second quarter, the company might see more operational activity than it did in the first quarter (if a second wave doesn't hit). With [more passengers](#) and cost-reduction initiatives the company has taken, it might start to make enough money to at least partially (or fully) sustain its operating costs. But it's hard to say whether it would be enough to stay ahead of its debt and other financial obligations or not.

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