



Air Canada (TSX:AC) Stock: Is it Headed BACK to \$1?

Description

Air Canada ([TSX:AC](#)) was one of the best performing TSX stocks of the 2010s. Trading as low as \$1 in 2009, it eventually went as high as \$52 – before tumbling in the COVID-19 market crash. The dramatic surge was largely due to a turnaround in the company's fortunes. After entering bankruptcy protection, it staged a dramatic comeback in the 2010s, posting 27 consecutive quarters of growing revenue. On the strength of that growth, the company's stock price rose more than 5,000% from its 2009 lows.

Now, the question is whether AC is headed *back* to \$1. That might seem unthinkable, but it's worth considering. If we look at the kinds of revenue and earnings figures Air Canada was putting out in 2009, we can gauge how likely it would be for the stock to fall back to those levels. As it turns out, it's entirely within the realm of possibility.

Air Canada's earnings in 2009

In 2009, Air Canada had [\\$9.7 billion in revenue](#), \$167 million in net cash outflows from operations, and \$-0.18 in earnings per share. The EPS figure was actually a big improvement. While it was negative, it was better than 2018's \$10.25 per share loss.

Now let's flash forward to the first quarter of 2020. In that period, Air Canada earned \$3.7 billion in revenue and had a [\\$1.05 billion net loss](#). If we assumed that the next three quarters were going to be similar, we'd have \$14.8 billion in revenue and a \$4.2 billion loss.

However, that's an unwarranted assumption. Air Canada forecasts that the second quarter will be worse than Q1, and that the third and fourth quarters will be better than Q2. It's hard to say how the second half of the year will compare to Q1, so forecasting revenue and earnings for the entire year is futile.

It is worth noting that Air Canada's Q1 loss *alone* was larger than the full-year 2009 loss. That year, the company lost \$24 million. In Q1, it lost over a billion. So the company's most recent loss was 44 times greater than its loss in a period when the stock could be bought for \$1!

Of course, these two periods aren't perfectly comparable. The problems Air Canada faced in 2009 were very different from the problems it's facing now. But should these problems persist long term, there's no reason why the stock couldn't fall back to its 2009 prices.

Could the stock go back to that level?

To the question of whether AC *could* go back to \$1, the answer is clearly yes. The company is already losing more money than it was when its shares cost a dollar. If the same valuation standards apply now as then, then the stock price should be lower. The real question is, "*Why isn't it?*"

The answer has to do with future expectations. Back in 2009, a lot of people genuinely believed Air Canada was going to collapse. It was just six years out of bankruptcy, and applying for federal money to avoid another one. Things weren't looking good, and investors didn't want to hold on for the ride.

In the COVID-19 era, investors are more confident that the company will bounce back. But I wouldn't be so sure. In its Q1 news release, Air Canada forecast that it would take three years to get back to 2019 revenue levels. If that lower revenue translates to negative earnings, then the company could go bankrupt again. In that scenario, a \$1 stock price is a very real possibility.

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andrewbutton

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