



Air Canada (TSX:AC) Investors Face the Moment of Truth This Week

Description

Air Canada ([TSX:AC](#)) stock is one of the laggards this year, with its stock falling more than 65% due to the pandemic. Though the stock has recouped much ground since record lows in March, it has yet to regain its earlier charm.

Now, it's an even more decisive moment for Air Canada, as it reports much-awaited second-quarter earnings this week. Lockdowns almost entirely dominated the period, and, thus, the numbers are not expected to be pretty. Rather, its Q2 earnings are estimated to be worst in the year and might create more downward pressure on its stock.

Air Canada: Second-quarter earnings

Air Canada stock witnessed a notable decline when it [reported](#) first-quarter earnings in May. It reported an approximate \$400 million loss for the quarter, its worst quarter in years. Now, for the second quarter, the country's biggest airline is expected to report more than a billion-dollar loss. Whether the stock retests its March lows of \$9 remains to be seen.

Importantly, this should be an opportunity for long-term investors to grab the stock at lower levels. AC stock will likely bottom out on the earnings weakness and might see decent recovery later this year. Analysts also expect relatively better earnings for the second half of 2020.

Apart from Air Canada's earnings, its liquidity position and management outlook will pave the path for its stock in short to intermediate term.

Large operations and maintenance costs continued to dent its balance sheet, even when the airline was not operating. It also trimmed thousands of jobs to cut down on operating costs. Notably, the flag carrier raised capital a couple of times in the second quarter, which might help it survive the crisis longer. However, a prolonged pandemic might significantly make things bleaker for Air Canada.

Pending Air Canada-Transat AT deal

Any update on Air Canada's long-awaited **Transat AT** deal will also be important to watch. It agreed to pay \$18 per share to acquire Transat in August last year. However, Transat shares have lost much of their value due to the COVID-19 this year and are now trading below \$6 apiece, indicating the deal's earlier terms are uneconomical for Air Canada.

Transat carried around five million passengers in 2019 — almost 10% that of Air Canada. The acquisition would offer AC an expansion in the holiday travel space and Transat's decently sized fleet. However, the deal might not close anytime soon, given the regulatory hindrances.

The Foolish takeaway

Air Canada management expects it to take three years' time to reach air traffic to its pre-pandemic levels. Given the gloomy outlook for its upcoming earnings, the stock could trade weak in the short term. However, we might see its operations gradually normalizing later this year, which might fuel some recovery in the stock.

Also, despite the recent acceleration of active coronavirus cases, full-fledged lockdowns across the globe might not return. Importantly, multiple players in the vaccine race achieving favourable results bring [Air Canada's recovery](#) closer and make it all the more believable.

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Date

2025/07/02

Date Created

2020/07/29

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