



## Air Canada (TSX:AC) Stock: How Low Can It Go?

### Description

Few Canadian stocks were hit harder by the COVID-19 market crash than **Air Canada** ([TSX:AC](#)). Down more than 60% year to date, it has dramatically underperformed the **TSX**.

While most Canadian stocks fell in the initial crash, the index as a whole has regained much of its lost ground — but not so much with AC. Trading at \$16.78 as of this writing, it was closer to its March low (\$12.15) than its January high (\$52).

Faced with these facts, it's natural to wonder just how much lower Air Canada can go. This is, after all, a stock that once traded for under a dollar. If you'd bought at certain points in 2009, you could have acquired it for as little as \$0.80. If its revenue and earnings fall back to the level they were at that year, there's no reason (theoretically) its stock price couldn't go back to where it was then.

And, as you're about to see, Air Canada's revenue and earnings *could* go that low. Net income, specifically, could go much lower.

To understand why that is, we need to look at where Air Canada was as a company in 2009, when its stock price was at its lowest point of the century.

### A snapshot from history

In 2019, Air Canada had \$9.7 billion in revenue, \$316 million in operating losses, and a \$0.18 per-share loss. In the fourth quarter of that year, it had \$2.4 billion in revenue, an \$83 million operating loss, and a \$0.25 per share loss.

At its lowest point in 2009, the markets valued AC at \$0.80. In the fourth quarter of that year, its valuation hovered a little over a dollar. At that time, AC was just six years out of [bankruptcy](#) and [receiving bailout money](#) to prevent going bankrupt again.

It's also worth noting that early 2009 was the bottom of the Great Recession—most stocks were in the gutter then. Still, the facts remain: the markets valued Air Canada at around a dollar when it was doing

\$9.7 billion in annual revenue and losing \$0.18 per share.

It would not be impossible for Air Canada to hit those kinds of numbers again. In the first quarter of 2020, Air Canada lost \$1.05 billion on revenues of \$3.7 billion. It lost \$4 per share and experienced a \$400 million operating loss. These numbers don't seem too far off the fourth quarter of 2009. Revenue was about a billion dollars higher, but the per share loss was 16 *times higher*.

In fact, AC's first quarter 2020 loss was worse than its entire 2009 loss. If Air Canada was only worth a dollar when it was losing \$0.18 per share, why should it be worth \$16 now? You might say that the company's current setback is temporary, but there's a strong case to be made against that.

Air Canada has itself admitted that its recovery from COVID-19 won't be quick, so there's no reason to believe its 2020 earnings are a blip on the screen.

## Equity has been diluted

Another issue facing Air Canada is the fact that it's had to dilute equity to pay for its operating expenses. In June, the company sold 35 million shares to qualified investors, on top of issuing new debt.

With about 300 million total shares, Air Canada didn't get *that* diluted with its new share issuance. But basically its investors are holding on to a smaller fraction of a shrinking enterprise — not a great situation.

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### Date

2025/08/29

### Date Created

2020/07/29  
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