Air Canada Share Price Falls on Q2 Revelations

Description

It's been a busy week for companies reporting earnings. There's a sense of "ripping off the Band-Aid" right now. No matter how analysts want to sugar coat the situation, this year's second quarter was diabolical.

Against this backdrop **Air Canada** (TSX:AC) reported an 89% year on year plunge in revenue for 2020's second quarter. Total passengers carried fell by 96%. The company recorded an operating loss of $1.55 billion, and a net loss of $1.752 billion, or $6.44 per diluted share. The market reacted quickly, with Air Canada dropping an initial couple of percentage points on the news.

Huge losses revealed

Investors have a potential "comeback kid" pick in Air Canada, though, even if its valuation could still be better. However, Air Canada is an excellent example of why the P/E ratio doesn't work during a pandemic.

At 90 times earnings, there is a weak argument to be made for buying this stock based on ratios alone. Its P/B is a little more insightful, with a price ratio of 1.16 time book displaying an attractive entry point.

However, the story of a company is arguably much more important at the moment. More important than market ratios, anyway – at least to investors concentrating on the question of upside. Air Canada's story is a turbulent one.

Investors combing through its track record will no doubt have noted its post-9/11 bankruptcy protection filing, for instance. This is a company that historically struggles with emergencies.

That said, with over $9 billion in liquidity, a 52% quarterly increase in cargo, and the potential to capitalize on reopening, steep growth could be forthcoming. Investors will have to gauge their bullishness about a return to normalcy. Vaccine breakthroughs are likely to boost Air Canada's share price in the meantime.

CEO Calin Rovinescu was able to put the losses in context in the Q2 report. “As with many other major airlines worldwide, Air Canada’s second-quarter results confirm the devastating and unprecedented effects of the COVID-19 pandemic and government-imposed travel and border restrictions and quarantine requirements.”

A long haul flight to recovery?

Air Canada has tried various avenues of recovery during the pandemic. It followed strict disease containment guidelines, cut spending, and preserved liquidity. While still adhering to health and safety requirements, Air Canada began offering middle aisle seats again. In between these two points, Air Canada also muscled in on the cargo-only flight space.

But for all the contrarian hullabaloo, Air Canada hasn’t been able to hold a candle to **Cargojet**’s incredible year over year share price gains. The latter company – undeniably the dominant market force in the time sensitive cargo industry – has seen an incredible 67.5% share price climb in 12 months.

Air Canada, on the other hand, has suffered a crippling 65% nose dive in the same 12 months. No wonder Air Canada wanted to get in on Cargojet’s territory. But selling middle aisle seats pre-vaccine arguably hasn’t improved Air Canada’s public image.

The move potentially won’t help near term revenue much either, with the U.S.-Canada border still closed and many destinations still off limits.

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