Air Canada (TSX:AC) Stock: A Shocking 89% Decline in Revenues

Description

Everyone knew that the second-quarter results of **Air Canada** (TSX:AC) would be bad, maybe even a bit worse than the first-quarter results. The investors, speculators, analysts, even the management knew it. But when the reality set in, it was worse than what most people thought it would be.

For one, the second-quarter results offset the loss predictions by quite a sum. The revenues declined by 89%. Even for an airline that's barely working at a fraction of its total capacity, that means there isn't enough money coming in through the operations to keep the company running.

So it has to depend upon its cash reserves to keep things functioning. The question is, how long would it take to burn through its reserves?

Management confidence

The second-quarter results were enough to shake investor confidence to its core (whatever is left of it). However, the management is hopeful that its liquidity position is strong enough to see it through these harsh times.

While answering the public questions during the conference call, Air Canada's management claimed that the company is stable and that the company's liquidity was almost unprecedented.

While Air Canada's stock doesn't make an excellent case to augment these statements, they are correct. The company did show the world that it was capable of a growth that's very rare in the airline sector. And if COVID-19 hadn't shaken up the world and the industry, Air Canada would have been even more robust through a significant acquisition.

The way the company raised its liquidity, which included equity, debt, and aircraft financing, by $5.5 billion since mid-March *is* unprecedented, especially for an organization with such a dark future outlook.

But the crux of the matter is, does that show actual market confidence on the company, or it's just opportunistic entities betting big? The way Air Canada's management conducted the quarterly results conference call, they were trying to project that investors are still banking on the company making it through.

Bankruptcy chances

Though bankruptcy isn't a certainty yet, the drought of air travel demand has gone on for too long. And while local travel demand is picking up, it's not enough to sustain Air Canada, since about 70% of its revenue is generated through international travel.

So, even if local demand picks up and reaches 50% of its pre-pandemic levels, it would only contribute to about 15% of its revenue.

The problem with Air Canada not going bankrupt is the steps it's taking to stay afloat. If this keeps up, the company will have to dilute its position further to raise more capital, which might be good for new investors, but terrible for people who bought into the company when it was its prime.

Foolish takeaway

The company is transporting under 4% of the passengers it used to carry in pre-pandemic times. The situation with international travel might not improve for a while yet, since the country isn't easing up its travel restrictions.

The company is continually bleeding out, and even though its liquidity might sustain it through one more quarter like this, it might not be enough for the quarter after that.

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