



## Air Canada (TSX:AC) Stock: The Coming Disaster

### Description

**Air Canada** ([TSX:AC](#)) stock has been a massive disappointment in 2020. Down 64% year to date, it got hit especially hard in the COVID-19 market crash. In recent months, AC has been trending upward, climbing 44% from its low in March. However, the stock may have more headwinds yet to come.

While AC could have upside in the extreme long term, the company will be in trouble for the remainder of the year. In fact, its third-quarter results are likely to be as bad as they were in the first and second quarters. That doesn't mean that the stock is necessarily a loser. But if you hold it, you need to be aware that another disaster could be right around the corner.

### Disastrous results in Q1 and Q2

As most people are aware by now, Air Canada's Q1 and Q2 results were terrible. The company lost \$1.05 billion in the first quarter, followed by [\\$1.75 billion in the second](#). To keep itself afloat through a period of lower revenue, the company issued new debt, which increased its interest expenses.

In Q2, Air Canada had \$149 million in interest expenses and revenues of just \$527 million. That means that interest alone was nearly a third of revenue. This is not a company that can survive dramatically lower revenue for a long period of time. Its fixed costs are just too high. Unfortunately, the company's revenue is likely to remain depressed for at least another quarter, as we'll see shortly.

### Q3 likely to be the same

In the third quarter, there hasn't been much news from Air Canada about reinstating cancelled routes. If you look at the [Media Room](#) on the company's website, you can see that it hasn't issued any press releases announcing reinstatements recently. That probably indicates that few cancelled routes actually have resumed. Flights resuming would be positive news that Air Canada would like to highlight. If they haven't released any new press releases about it, then it probably isn't happening.

Air Canada's flight volume is likely to be extremely low in Q3, just like in Q2. In Q2, Air Canada was

flying 96% fewer passengers than normal, and posted revenue 89% lower than a year before. In Q3, we're likely to see similar figures. It is possible that the Q3 numbers won't be *quite* as bad as Q2's, because we could see more passengers on routes that are still flying. But they will be in the same ballpark.

## Foolish takeaway

Air Canada stock has come a long way since its low in March. Up 44% since then, it has staged a remarkable recovery. However, it's still down 64% for the year, and Q3 earnings are likely to be another disaster. It's entirely possible that this company could enter bankruptcy protection — again. Overall, AC stock is a very, very risky bet.

### CATEGORY

1. Coronavirus
2. Investing

### POST TAG

1. Editor's Choice

### TICKERS GLOBAL

1. TSX:AC (Air Canada)

### PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

### Category

1. Coronavirus
2. Investing

### Tags

1. Editor's Choice

### Date

2025/09/08

### Date Created

2020/08/31

### Author

andrewbutton

default watermark

default watermark