Air Canada (TSX:AC) Stock: The Terrifying Numbers

Description

This past week, **Air Canada** (TSX:AC) stock slid in the midst of a broader market selloff. Earlier in September, the stock had been seeing gains, but the momentum ended when the tech selloff began to spread to other sectors.

As of this writing, AC stock is down 67% for the year. Despite the big gains the stock has posted since March, the company still has a long way to go before it regains investor confidence. This year, the company has sustained lasting damage that will persist long after revenue levels finally recover. The following three numbers show how scary the situation really is.

$2.75 billion: The loss so far this year

In the first quarter, Air Canada lost $1.05 billion. In the second, it lost $1.7 billion. That brings us to a total loss of $2.75 billion.

Why is that so terrifying?

It all comes down to future expectations.

Air Canada could take a $2.75 billion loss if it ended there. But the company *isn't* expecting it to end there. In its Q1 press release, AC said it would take three years to get back to 2019 revenue levels. For a business like AC with high fixed costs, depressed revenue can easily lead to losses. And more losses like those seen in Q1 and Q2 would quickly become a problem.

If Air Canada kept losing money at the rate it has so far, we'd get a $5.5 billion loss for 2020. That's greater than Air Canada's cash on hand ($5 billion) and about 63% of its total cash and equivalents ($8.6 billion). It's never good when a company runs losses approaching its cash position. It suggests that the company will have to borrow heavily just to cover recurring costs. AC already issued one $1.6 billion debt/equity package, and it looks like more of that will be needed.

28%: The interest expense as a percentage of revenue

In Q2, Air Canada had $527 million in total revenue. In the same quarter, it had $149 million in interest expenses. That means that interest expenses *alone* are eating up a whopping 28% of Air Canada's total sales. That's money that's just going to finance debt already on the balance sheet. If revenue stays the same and Air Canada has to borrow more, then the percentage will go higher. Add other fixed costs on top of that, and you've got a situation where it's virtually impossible for Air Canada to turn a profit at current revenue levels.

89%: The reduction in revenue

On the topic of revenue levels, we need to touch on how badly they declined in Q2.

In the second quarter, Air Canada did $527 million in total revenue, down from $4.7 billion a year before. That's a whopping 89% decline. In and of itself, that's a bad sign for the company.

But it's even worse for Air Canada than for the average company. Airlines are extremely capital-intensive businesses with high fixed costs. When revenue declines, therefore, it becomes extremely hard to turn a profit. When it declines as much as 89%, it's essentially impossible. As previously mentioned, interest alone is eating up a huge chunk of Air Canada's sales.

This problem would be surmountable, of course, if the situation were set to change soon. But by all signs, it isn't. In September, Air Canada is still cutting more routes in a desperate attempt to lower its costs. So, despite all the gains AC has posted since March, it's still in big trouble.

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