Why October Could Be a Huge Month for Air Canada (TSX:AC) Stock

Description

Air Canada (TSX:AC) stock has been fairly stable over the past six months, losing just 5% of its value during that time. Year to date, it's still down a disastrous 67%, as it continues to be a long road ahead for the troubled airline. The coronavirus pandemic has weighed heavily on not just its results but the overall trajectory for the industry. Air travel is not likely to get back to its pre-pandemic until at least 2024, according to estimates from the International Air Transport Association.

In the meantime, investors could be due for a roller-coaster ride. In October, it's likely that shares of the airline could see a lot more volatility.

Earnings season could make or break the stock

The stability the stock has been seeing of late will be tested in October. Although Air Canada hasn't formally announced when it will release its third-quarter earnings, it typically does so at the end of the month. And even if it doesn't report in October, how other airlines perform could indirectly impact investors' expectations for the industry, which, in turn, could impact the stock's performance.

In the second quarter, everyone knew it was going to be an awful period for the airline. After all, shutdowns in April and May meant there was next to no travel during those periods. Air Canada's Q2 revenue of $527 million was just 11% of the sales it generated the year before. That led to a disastrous bottom line where the company incurred a loss of $1.6 billion compared with a profit of $422 million a year ago.

Air Canada stock didn't implode on the terrible earnings performance, partly because investors were expecting a disaster. But with more people flying in the months since then, investors will be looking for improved results this coming quarter. If the company still reports a +$1 billion loss, which is a possibility, the stock could lose the support it's seen in recent months at the $15 mark. And if the stock drops below that price, the floodgates could open up, triggering stop losses, which could send the stock near its 52-week low of $9.26. On the flip side, if Air Canada does show significant progress and reports a big improvement, it could help send the stock in the other direction, above the $20 mark.

This earnings season is important for airlines, because the summer is the peak season, and how they've performed over the past three months could do a lot in terms of shaping expectations for the future.

Should you buy shares of Air Canada today?

Despite the increase in air travel in recent months, I wouldn't anticipate a good quarter from the top Canadian airline in Q3. For one thing, the U.S. Department of Transportation said that Air Canada had the most refund-related complaints of any foreign carrier in June.

Consumers likely aren't thrilled with Air Canada at this point, and it's hard to imagine they'd be eager to book with the airline. The company also unveiled a monthly pass that would allow unlimited travel for a flat rate. That's not an offer that seems like it would be in high demand amid a pandemic, and it could be a sign of desperation.

Although Air Canada stock is stable for now, investors shouldn't expect that to continue this month.

Things are likely going to get worse before they get better, and investors who want to invest in the stock may be better off waiting until after this upcoming earnings report before making an investment decision.

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