



## Airlines Earnings: Another Billion-Dollar Loss for Air Canada (TSX:AC)

### Description

The last week brought bad news for **Air Canada** ([TSX:AC](#)), sending the stock down 7.4%. Early this month, I had [warned you](#) against investing in the stock, as there are a lot of grey areas that will make the stock more volatile.

Two of the top four U.S. airlines, **United Airlines** ([NASDAQ:UAL](#)) and **Delta Air Lines** ([NYSE:DAL](#)), reported billions of dollars in third-quarter losses.

This week, **American Airlines** and **Southwest Airlines** will release their earnings, and things don't look good for them either. While AC is better off than its U.S. counterparts in terms of liquidity, its margins are worst than others. It is because AC earns 70% of its revenue from international travel and Canada has the strictest restrictions on international travel.

## U.S. airlines earnings move from surviving the pandemic to leading the recovery

In the third quarter, United and Delta saw a 70% and 110% increase, respectively, in revenue as compared to the previous quarter. This revenue was driven by the opening of domestic air travel. More than passenger revenue, it was the cargo and loyalty revenue that drove the sequential growth.

In the case of United Airlines, its cargo revenue surged 49.6% year over year (YoY), mitigating the impact of the 81% decline in passenger revenue. In the case of Delta Air Lines, it was the 2% YoY increase in loyalty revenue that mitigated the 83% and 25% decline in passenger and cargo revenue.

The passenger revenue will take at least two years to recover, which means revenue will remain low. When you can't control the revenue, you control the cost. Global airlines are resorting to downsizing and huge cost cutting to reduce their daily cash burn and minimize the losses.

## Air Canada: Another billion-dollar loss in the making

In the third quarter, United reduced its operating expenses by 59% YoY, the highest among the top five carriers. This helped it reduce its daily cash burn to \$25 million from \$40 million in the previous quarter. Delta reduced its operating cost by 52.2%, which reduced its cash burn to \$24 million from \$27 million in the previous quarter. Despite such significant cuts in operating costs, the net loss of Delta and United crossed \$5 billion in the first nine months.

AC is on track to report another billion-dollar loss in the third quarter, bringing its nine-month loss to \$4 billion. It reduced its operating expense by 51.8% YoY in the second quarter and was burning \$15-\$17 million daily.

These losses won't end here. Even though the revenue is rising, airlines are a capital-intensive business. They use up 80-90% of their revenue in operating expenses. For an average airline to break even, it needs to fill at least 75% of available seats. Now, AC is looking to attract passengers with a revamped Aeroplan loyalty program.

## Air Canada's Aeroplan loyalty program

In 2017, AC spent \$497-million to repurchase Aeroplan, which it spun off in 2005, as it needed money after the 2004 bankruptcy. Aeroplan has always been a good business. One in every \$9 spent in Canada is done using an Aeroplan credit card. AC CEO Calin Rovinescu plans to use it to win back the loyalty of its travelers in the COVID-19 economy.

AC has come under a lot of criticism for not refunding ticket money for flight, instead giving vouchers. It needs its loyalty program more than ever to help travellers use these vouchers and win back the trust of its customers. AC will launch its [new revamped Aeroplan program on November 8](#).

Under the new loyalty program, customers can earn points even from their everyday purchases and redeem them to book flights. AC is also changing the basis of calculating the points from distance traveled to airfare. This will encourage travelers to take expensive flights.

Moreover, booking flights on popular routes at peak times would charge more points as compared to less-popular routes and off-peak hours. The returning travel demand is from leisure travelers who are not sensitive around peak hours. This new loyalty program would help AC fill maximum seats and improve revenue per flight from leisure travel.

It is too early to bet on the success of AC's Aeroplan. There are better stocks that can boost your portfolio.

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