



Will Air Canada (TSX:AC) Stock Make a New Low in November?

Description

Airline stocks are falling after a disappointing third-quarter and an even more disappointing air travel recovery. **Air Canada** ([TSX:AC](#)) stock fell 6% to \$15.96 on October 26. What airlines feared came true. The COVID-19 cases surged in the U.S., Europe, and Canada, dampening hopes of easing travel restrictions. The airline is cancelling flights and handing out vouchers instead of refunding ticket money, drawing customer frustration.

What does November have in store for Air Canada?

The month of November is when AC releases its third-quarter earnings and the new Aeroplan program. When AC is not sure if it can fly its scheduled flight, even its revamped Aeroplan loyalty program won't excite travelers. It is also the month when the Canadian government might either extend or ease U.S. border restrictions, where only essential travel is allowed.

The U.S. airlines' earnings have already prepared AC investors for the worst. Its U.S. counterpart **American Airlines** ([NASDAQ:AAL](#)) reported its largest quarterly loss of US\$2.8 billion in the [third quarter](#). Its debt surged past US\$30 billion, raising an alarm of a highly leveraged balance sheet, which could take almost a decade to deleverage. Hence, its stock fell 10% to US\$11.8, which is still 43% above its 52-week low of US\$8.25.

American Airlines' stock didn't make a new low because the airline's revenue surged 97% sequentially and its average daily cash burn reduced to \$44 million from \$58 million in the previous quarter. Around \$6 million of this cash burn went towards debt payments. It plans to reduce this cash burn rate to \$25-\$30 million in the fourth quarter.

Southwest Airlines ([NYSE:LUV](#)) is better off than American Airlines. Southwest has a debt of US\$10 billion and cash of US\$14.5 billion. A reduced debt burden helped it lower its daily cash burn to US\$16 million and also control its loss at US\$1.1 billion in the third quarter. Hence, its stock fell just 3.9% post-earnings, which is better compared to other airlines.

What to expect from Air Canada's third-quarter earnings

Air Canada falls in between. Like Southwest Airlines, AC has a strong balance sheet with \$9.1 billion liquidity and a net debt of \$4.56 billion. Like American Airlines, AC has a higher operating expense ratio (91% in the pre-pandemic world), which widens its losses to \$1.75 billion. These are AC's second-quarter figures.

Looking at the earnings of its peers, AC's third-quarter revenue might surge 90% sequentially to reach \$1 billion. Its net loss could widen to \$2.3 billion, bringing its nine months' loss to \$5 billion. This is in sync with the nine months' loss of **Delta Air Lines** and **United Airlines**, which surpassed US\$5 billion.

The third-quarter losses would reduce AC's liquidity to around \$7-\$7.5 billion in the third quarter. If the airline continues to report an average loss of \$1.7 billion every quarter, it won't survive after four quarters.

Time is ticking

The third quarter saw air travel demand improve as leisure travelers increased when domestic travel reopened. Passenger revenue doubled from the previous quarter. But the profit-making segments are international flights and business travel, which are still battered. Some airline bosses don't expect business travel to return to the pre-pandemic level before 10 years.

And leisure travel also would see a seasonal decline and won't return before mid-2021. Time is ticking for AC as capital and liquidity are drying up. Even billionaire investors like Warren Buffett are staying away from airlines. Airlines are downsizing to slow losses. If air travel doesn't show significant growth by the second quarter of 2021, a government bailout would be the last resort for AC.

Would Air Canada stock make a new low?

American Airlines is worse off than AC and hasn't bottomed out. AC stock bottomed at \$9.26 in March. But it is better-off than March. It is operating at 20% capacity instead of just 5% in the second quarter. Despite all the bears, AC stock is unlikely to make a new low. However, it could fall to \$14, creating an [opportunity for short-term traders](#).

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