



Air Canada (TSX:AC): Will its Q3 Earnings Push the Stock Below \$10?

Description

Through all the tensions and turmoil, **Air Canada** ([TSX:AC](#)) stock has fallen from \$52 to \$15 this year. There is a high possibility that the country's biggest air carrier will report another quarter of loss next week. Whether the stock falls close to its March lows below \$10 remains to be seen.

Air Canada: Brace for impact

For the first half of 2020, Air Canada reported a massive 55% drop in revenues compared to the same period in 2019. It has already lost around \$2.8 billion this year. The only silver lining that has been holding the stock to some respectable levels is its strong balance sheet.

It had around \$8.5 billion in liquidity at the end of the second quarter of 2020, enough to continue operations with near-zero demand for the next few months. That's quite a feat for an airline to have strong liquidity and sustain longer in such distressing times. However, a prolonged pandemic could make things uglier.

For the third quarter, analysts expect around a billion-dollar in revenues from the flag carrier. Notably, if Air Canada achieves anything closer to that, it still marks a handsome recovery from its top line in the second quarter of 2020.

The airline has been aggressively focusing on cargo-only flights since March 2020. As the passenger traffic has taken a huge hit in the last few months, cargo could support its top line to some extent.

Will there be a positive surprise for investors?

Apart from financials, Air Canada's management commentary could be a valuable indicator for investors. It has been demanding to ease travel restrictions for a long. While Air Canada has largely blamed the travel curbs for its revenues lost, there has been no respite so far.

The bailout package for the country's aviation sector is also apparently in the making, but we don't

have any specifics yet. The [aviation sector in Canada](#) employs more than 600,000 and contributes nearly 3% to the GDP. The pandemic has laid off thousands of jobs already and endanger more in cost-cutting measures. Thus, a bailout package seems likely and could notably benefit airline companies like Air Canada.

Air Canada revised its offer to buy struggling holiday travel specialist **Transat A.T.** last month. If the competition commission gives a green signal and the transaction completes, Air Canada will save more than \$500 million against its earlier offer last year. The deal might not seem attractive amid the pandemic. However, AC could garner enormous gains from it in the post-pandemic environment.

Air Canada stock

Canada's travel restrictions pushing to next year could notably hamper investor sentiment. Air Canada's losses will rise to obscure levels in that case, which will only increase the financial burden.

Interestingly, Air Canada stock has held \$15 levels so far. Breaching those levels and falling below \$10 suggests a further 50% correction. It has already corrected 65% so far in 2020, and such a steep correction from here seems unlikely. A possible bailout, operational efficiency, and [strong liquidity](#) could hold the stock from further weakness. Even though the airline stock could peak in the longer term, it is not immune to short-term shakeouts.

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