3 Things to Watch for When Air Canada Releases Earnings Next Week

Description

Air Canada (TSX:AC) will release its third-quarter earnings results on November 9. Two things are certain: Sales will again be down heavily from the prior-year period, as will be the company's bottom line. But that's not what investors should be focusing on. After all, until the pandemic is over or at least until the economy is somewhat back to normal, the airline business is going to continue to suffer. Rather than sales and losses, investors should be keeping an eye out on the following three items:

Liquidity

One of the key things Air Canada mentioned in its second-quarter earnings back in July was liquidity. As of June 30, this figure was $9.1 billion. The company's cash and cash equivalents were $5.1 billion. Investors will want to see how these numbers have changed and at what rate they're decreasing by, giving us an insight into how well Air Canada's been slashing cash-related expenses and possibly estimate how many quarters it can keep going at the current rate.

Even if Air Canada runs low on liquidity it can still issue equity. But right now, with ample liquidity on its books, there's no reason to worry just yet. However, this is something that investors will want to pay much more attention to than losses, which will contain non-cash items that don't have any impact on the company's overall financial health.

Operating expenses as a percentage of revenue

Knowing how large the company's operating expenses are in relation to Air Canada's total sales will give investors a good gauge into how efficient the business is running, and how much it's been able to cut from its operating expenses. In Q2, operating expenses of $2.1 billion were about four times its sales, which were just $527 million. In Q2 2019, operating expenses made up 91% of revenue. Even when things were going well, the airline's been operating with some high expenses.

Investors will also want to look at the raw operating expenses figure, to see how much more the airline was able to trim off. If there's not much of a reduction from Q2, it could be a sign that the airline's running out of expenses to cut and this could be as lean as it can operate.

Cash from operations

How much cash Air Canada's generating (or burning) from its day-to-day operations will be crucial in determining how long its current level of liquidity may last. In Q2, the airline used up $1.3 billion in cash to fund its operating activities. In the same period in 2019, it generated positive cash flow of $1.1 billion. In particular, changes in non-cash working capital balances were a negative $550 million last quarter.

Air Canada's going to need to manage its working capital as best as it can, and that means minimizing the outflow of cash where it can, even if that means slowing the rate of refunds. From a customer's standpoint, that's not great, but this is an example of one way Air Canada can slow its rate of cash burn and make its cash last a little longer.

Bottom line

It won't be a profitable quarter for Air Canada when it reports its earnings, but it'll be a question of if it's at least an improvement from Q2. If its liquidity remains strong, operating expenses come down, and the company's cash from operations show improvement, then that would have to be considered a good quarter for the airline.

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