Air Canada (TSX:AC) Is Bleeding Cash

Description

Air Canada (TSX:AC) stock has been doing surprisingly well lately. Last Friday, it closed at $23 — about double its lowest price in the March bear market. If you had invested $10,000 in AC on March 23 and sold last Friday, you'd be up nearly $10,000 — not a bad return.

But it's quite a different story for the company itself. After running three huge quarterly losses in a row, it has been bleeding cash. While AC has made remarkable efforts to cut costs and make up lost passenger flight revenue with more cargo flights, it's still losing money. In fact, it may be losing so much cash that it will struggle with liquidity.

Air Canada once again issues shares

On December 16, Air Canada announced that it had sold 35,420,000 shares for total proceeds of $850,000,000. The company issued the shares to improve its cash position and for working capital management.

When a company issues shares to fuel growth, that can be a good thing. But when it issues shares just to improve its balance sheet, it's usually cause for concern. It tends to indicate that the company will have cash management issues without issuing equity. Companies are usually reluctant to do this, because issuing new shares dilutes the value of each share. The fact that it was done indicates the precarious position Air Canada is in.

While Air Canada's cash in the third quarter ($7.7 billion) was up from the end of 2019 ($5.9 billion), that was mostly due to financing activities. Had it not been for issuing stock and debt, the company's cash position would be much worse. With $1 billion in quarterly cash outflows, the company would have run $5.9 billion down to just $1.9 billion in four quarters. And Air Canada is actually forecasting worse cash burn than that in the fourth quarter — $1.3 billion, to be precise.

The vaccine: Not a cure-all for airlines

While Air Canada stock has been rallying ever since the COVID-19 vaccine was announced, the vaccine isn't a cure-all for airlines. There are many ways that passenger travel could remain low even in a post-vaccine world. These include

- A slower-than-expected vaccine rollout;
- Provinces and countries choosing to keep self-isolation orders in place as a precaution;
- A new variant of COVID-19 that the vaccine isn't effective against; and
- Passengers remaining wary of travelling even after lockdowns and isolation orders have ended.

For all of these reasons, Air Canada's financial fortunes are far from guaranteed to turn around in 2021. The company seems to acknowledge this, as it forecast that it would take three full years to get back to 2019 revenue levels. That's an awfully long haul. In the meantime, Air Canada stock could experience major volatility.

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