



Air Canada (TSX:AC) Stock Could Plummet After Earnings

Description

Air Canada ([TSX:AC](#)) will be releasing its fourth-quarter and full-year 2020 report on February 12. And it's going to be a doozy. After losing \$3.4 billion in the first three quarters of the year, AC projects it will burn through \$1.1 billion to \$1.3 billion in cash in the fourth quarter. Assuming the company's net loss in the fourth quarter is similar to its cash burn, then its total 2020 losses will come close to \$5 billion. If that turns out to be the case, then its stock will likely decline on the news.

How much money Air Canada expects to lose

Recently, Air Canada predicted that it would [burn through \\$1.1 billion to \\$1.3 billion](#) in cash in the fourth quarter. That projection included \$5 million in daily capital expenditures and about \$4 million in daily interest expenses.

In the airline industry, cash burn is cash used in operating, financing, and investing activities, minus any big "lump sums" like proceeds from issuing stock. So far in 2020, Air Canada's cash burn has been a pretty good proxy for the company's net losses. For example, in the third quarter, the company had \$818 million in cash burn and a \$685 million net loss.

Why is that significant?

It would tend to indicate that the company is headed for another billion-dollar loss in the fourth quarter.

If Air Canada's net loss is once again within \$150 million of its cash burn, then it should lose between \$950 million and \$1.45 billion in the fourth quarter. That would be a significantly bigger net loss than the company ran in Q3. That could lead to the company's stock tanking after several months of surprisingly strong gains.

That would bring this year's losses to nearly \$5 billion!

If Air Canada loses \$1 billion or more in the fourth quarter, then its full-year-2020 losses will be close to

\$5 billion. The company already lost \$3.4 billion combined in the first, second, and third quarters. Another billion-dollar loss would take us to \$4.4 billion. A \$1.45 billion loss would take us close to \$5 billion. That's nearly what Air Canada's entire market cap is at today's prices!

Foolish takeaway

Clearly, the COVID-19 vaccine story has gotten investors excited about Air Canada again. The stock is up 56% since the vaccine was announced and more than 100% from its March lows. However, the rally we've seen may eventually prove to have been premature.

The vaccine is expected to take months to roll out; during that entire period, lockdowns and self-isolation orders will remain in place. That will significantly curb demand for travel. So, Air Canada may still have several billion-dollar-losing quarters ahead of it. If that happens, then the company's [financial situation will continue to deteriorate](#). Eventually, the company may need to take a dilutive bailout just to stay alive. For these and other reasons, I wouldn't rule out another crash in AC's stock price in 2021.

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