



## Air Canada (TSX:AC) Expects to Lose up to \$1.3 Billion

### Description

**Air Canada** ([TSX:AC](#)) stock has been doing surprisingly well lately. Up 56% since **Pfizer's** vaccine announcement, it has rallied on the prospect of a COVID-19 recovery. While Air Canada is still losing money, investors seem to think it has strong prospects, as the COVID-19 vaccine program gets underway.

That may be the case. But the company itself sees things differently. In its most recent quarterly report, it all but said it would lose money in Q4. A few months prior, it said it would take three full years to get back to 2019 revenue levels. These definitely aren't bullish statements from Air Canada's management. And being company insiders, it's possible they know something investors don't.

### \$1.3 billion in cash burn expected in the fourth quarter

In its most recent quarterly report, Air Canada projected [\\$1.1 billion to \\$1.3 billion in fourth-quarter cash burn](#).

In the airline industry, "cash burn" has a very specific meaning. Specifically, it's cash outflows from operating, financing, and investing activities, minus "lump sums" like equity issuance proceeds. Such one-time "lump sums" tend to result in large inflows from financing when new money is raised. They're excluded from airline burn rates to give a more reliable measure of "day-to-day" cash flow.

So far this year, Air Canada's cash burn has correlated strongly with its net losses. For example, in the third quarter, cash burn was \$818 million, and the net loss was \$685 million. If Air Canada's net loss is similar to its projected cash burn in the fourth quarter, then its total losses for 2020 will be around \$4.5 billion.

### Three full years to recover

Another alarming statement Air Canada made recently was that it would take three full years to [recover to 2019 revenue levels](#). In 2020, Air Canada's revenue dropped by about 88%. That was almost

entirely due to fewer people flying and fewer routes operating than normal. It's generally believed that Air Canada's revenue will recover in 2021. That's because of the expected vaccine rollout, which is already underway. However, most experts are predicting it will take many months for the vaccine to reach a critical mass of the population. In the meantime, lockdowns and self-isolation orders will continue to limit travel.

For this reason, Air Canada probably still has several losing quarters ahead of it. The company may swing profitable again sometime in 2021, but to get back to 2019's results is going to take a long time — three years, if the company hits its own targets.

## Foolish takeaway

Air Canada has been doing surprisingly well in late 2020. It's up more than 100% from its March low and 56% from the day before the Pfizer vaccine was announced. As a stock, it's already starting to recover from COVID-19. As a company, however, it's a different story. The fourth quarter will see another net loss and up to \$1.3 billion in cash burn. Put simply, AC isn't out of the woods yet.

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### Date

2025/08/18

### Date Created

2020/12/30

### Author

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