Air Canada (TSX:AC) Stock Could Crash Again on February 12th

Description

Air Canada (TSX:AC) stock has recovered impressively since its March 2020 lows. At one point, it was down to $12.15. As of this writing, it was at $22.92–a nearly 100% gain. If you'd chosen the right price to buy AC stock at and sold today, you'd have realized an impressive gain.

But next month, that could all come to an end. On February 12, Air Canada will be releasing information that could shed light on the company's financial situation. If it's worse than expected, it could send AC stock crashing. And based on early indications, it's not going to be good.

So what's happening on February 12, and why is it so ominous for Air Canada?

Air Canada's earnings come out on that date

On February 12, Air Canada will be releasing earnings for:

- The fourth quarter
- The full 2021 fiscal year

The full 2021 earnings are virtually guaranteed to be bad, although they may not be as bad as investors are expecting. If they're less bad, the stock may rally. AC has already booked around $3.4 billion in losses for 2020, and the full year is likely to see a bigger loss than that.

The fourth quarter is more up in the air. AC is saying that it expects $1.1 to $1.3 in cash bleed for the quarter. If these cash predictions come true, and if net income is similar to cash bleed, then we'll see another $1 billion plus loss for the fourth quarter. However, neither of these are certainties.

Cash bleed has been a pretty close proxy for net losses in Air Canada's past year, but not a perfect one. In the third quarter, Air Canada's net loss was much lower than it had forecast. So we won't know for sure how bad Air Canada's fourth quarter will be until it releases the report. However, all signs indicate it will run some kind of loss.

What we know so far

What we do know about Air Canada's fourth quarter so far is this:

- It's predicting $1.1 to $1.3 billion in cash bleed
- It closed down several routes in the quarter
- It ran $5 million per day in debt servicing costs
- It ran $4 million per day in capital expenditures
- It earned less money from the CEWS than it did in prior quarters

Collectively, these signs point to a pretty weak fourth quarter for Air Canada. We won't know how much money the company will lose until February 12. But another billion dollar loss seems possible.

Time to sell?

All of this analysis leads to one question:

Should you sell Air Canada stock before earnings come out February 12?

Given that bad news looks likely on that date, it would seem prudent to take profits if you bought Air Canada when it was down and can now realize a gain. That is one option to consider. However, it depends on your holding period objective. In the *very* long run, AC stock may go higher than it is now. But it appears pretty likely that the stock is in for a correction in the near term. Taking profits on it now wouldn't be the worst decision, but there are valid reasons to hold on.

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Date
2025/08/18
Date Created
2021/01/20
Author
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