Why Air Canada (TSX:AC) Stock Is Rallying in February

Description

Air Canada (TSX:AC) stock has risen by over 8% in February so far. The largest Canadian airline is preparing to report its Q4 and full-year 2020 results on Friday this week. It's expected to report slightly less than $1 billion in adjusted net losses in the fourth quarter. It would bring its full-year 2020 net loss to around $3.9 billion.

Let's find out if you should take advantage of the ongoing rally in Air Canada stock or stay away from it.

Air Canada's Q4 earnings expectations

Air Canada's revenue could slightly rise on a sequential basis in Q4. But analysts expect a massive YoY (year-over-year) negative sales trend to continue with an 80% drop in its total Q4 revenue to $885 million. It would be the fourth consecutive quarter its revenue have fallen significantly.

As a result, Air Canada's full-year 2020 revenue could be around $5.9 billion — 69% lower to $19.1 billion in 2019. Analysts expect its net loss to be around $12.84 per share for the year.

The pandemic-related damage

The COVID-19 woes took a massive toll on Air Canada's financials, as it continued to burn cash throughout 2020. The travel demand suddenly nosedived due to the pandemic-related shutdowns and travel restrictions. Until 2019, the airline's progress in improving its financials and profitability had been remarkable. However, it all has now gone to waste. I believe it will take many years for Air Canada to reach the pre-COVID-level financial position.

On January 29, Air Canada saw another setback when it had to cancel its flights to 15 destinations in the Caribbean and Mexico at the government's request. The company had to offer a full refund to its customers on these routes.

COVID-19 cases are rising again

In January, Air Canada announced that it would resume Boeing 737 MAX commercial operations from February 1 on some selected domestic routes. The airline plans to bring the aircraft on other international routes as well. But it might not help the airline to be on the profitability path, as air travel demand remains low.

Moreover, the daily coronavirus infections are rising again across the country for the last few weeks. This continued situation could lead to extended travel restrictions — especially on international air travel. The financially burdened Air Canada isn't prepared at the moment to bear more pain. That's why I have very little hope for its stock recovery in the near term.

Then why is its stock rising?

The ongoing rally in the Air Canada's shares could be a result of investors' high expectations from the airline's Q4 results. Investors are also hoping for some positive announcements during its upcoming earnings event.

In contrast, analysts' expectations from its quarterly results are not high. Its stock could still see a minor near-term recovery if the airline manages to beat these estimates.

Final thoughts

I don't consider Air Canada stock a bad investment for long-term investors. But I can't ignore the damage the pandemic has done to its financial progress in the last year. Besides, the market has many other great and less-risky investment opportunities at the moment.

That's why I wouldn't want to buy its stock from current levels — unless the government decides to provide some immediate financial relief to the struggling airline industry.

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