



Air Canada (TSX:AC) Earnings: A \$1 Billion 4th-Quarter Loss

Description

Air Canada ([TSX:AC](#)) just released its fourth-quarter and full-year earnings. And the results were about as bad as you would have expected. AC ran massive losses for both the quarter and the year. The fourth-quarter loss was larger than that posted in the third, and the total loss for 2020 grew to \$4.6 billion. In this article, I'll dig into Air Canada's recent earnings release to highlight the most salient items for investors. We can start with the full-year 2020 results.

2020 highlights

Air Canada's [2020 fiscal year witnessed massive losses](#) and extreme reductions in capacity. Some highlights include the following:

- A \$4.647 billion net loss
- \$2.35 billion in operating cash outflows
- \$7.5 billion in new debt and equity issued
- \$13 million in daily cash burn

All of these figures were pretty grim. The multi-billion-dollar losses and cash outflows show a company whose performance is deteriorating, while the new debt and equity show how each share now has a smaller claim on the shrinking pie. The \$13 million in daily cash burn points to what investors can expect if the company doesn't turn things around this year.

Almost all of this damage can be attributed to the [COVID-19 pandemic](#). Faced with travel restrictions and lower customer demand, AC and other airlines have had to cut routes to stay afloat financially. 2020 saw the company cut many jobs and otherwise reduce costs. But with enormous fixed costs, AC wasn't able to avoid losing money, even with all the cost cutting.

Fourth-quarter highlights

For the fourth quarter, Air Canada released the following metrics:

- \$-728 million in adjusted EBITDA
- A \$1.16 billion net loss
- A \$1 billion operating loss
- \$796 million in net cash outflows
- \$8 billion in unrestricted liquidity as of December 31, 2020

Of these figures, only the last one on the list is a positive. With \$8 billion in combined cash and access to credit, AC should at least be able to stay afloat financially. Note, however, all of the losses. When you're losing \$1.16 billion per quarter, you burn through cash quickly. It would only take about two years of operating the way it did in 2020 for Air Canada to run through \$8 billion. So, if the COVID-19 pandemic keeps going the way it has, then Air Canada may have to issue even more debt and equity than it did in 2020.

Foolish takeaway

Since the announcement of the **Pfizer** vaccine in November, Air Canada stock has been doing surprisingly "OK." Since November 1, it has rallied about 40%, though it gave up some gains earlier this year. Many people were optimistic that mass vaccinations would turn AC's fortunes around. It stands to reason that if a large percentage of the population is vaccinated, then travel restrictions will be lifted and airlines will be able to go back as business as usual.

All of that makes sense. The problem is that vaccination is not proceeding as swiftly as people had hoped. As of the most recent reports, only about 2% of Canadians had received the COVID-19 vaccine. At this pace, the pandemic will last for at least the remainder of 2021. In light of that, we can expect Air Canada to sustain more damage this year.

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