



Why Air Canada Stock Is Soaring Today on Earnings

Description

Canada's biggest airline **Air Canada** ([TSX:AC](#)) reported earnings this morning before the bell. These earnings marked the largest one-year loss in the company's history. Indeed, Air Canada's CEO Calin Rovinescu called 2020 "the bleakest year in the history of commercial aviation, after having reported several years of record results and record growth at Air Canada."

So, why is this company's share price soaring today? Let's take a deeper look at these numbers and what they mean for investors.

Cash burn still problematic

Air Canada's cash burn rate approximated \$13 million a day, according to the recent results released this morning. Air Canada called the pandemic "catastrophic" for the company's earnings and cash flows. Indeed, airlines continue to be hard hit by pandemic-related travel restrictions. Until these restrictions are lifted, Air Canada expects this rate of cash burn to remain high.

Because of this high rate of negative free cash flow growth, Air Canada significantly added to its debt load. The company's debt increased by \$2 billion to around \$7 billion. This increase was used to shore up the company's liquidity situation. Accordingly, at the end of last year, Air Canada has around \$8 billion in liquidity.

Air Canada has continued to trim its workforce and cut costs wherever possible to stem the bleeding. To date, the company has laid off more than 20,000 of its employees. Additionally, Air Canada has suspended service for various routes and retired dozens of planes. These capacity reduction measures have helped, though Air Canada has said it's still paying around 50% of its pre-pandemic salaries while operating only 20% of its network. Such a situation does not appear to be tenable long term.

Bailout could be on the horizon

Just about the only thing Air Canada's management team was bullish on during this earnings release

was the potential for a bailout. Indeed, this could be a massive catalyst for this stock and for investors bullish on the near-term survivability of the sector.

The company noted that its bailout talks with Federal officials have been constructive. Accordingly, Air Canada is optimistic a deal can be done, though management offers no assurances of such a deal, as would be expected.

Air Canada's management team did not comment on its \$180 million takeover of **Air Transat**, though the fact this deal was approved suggests Ottawa is concerned with stability in the sector and protecting jobs. This is bullish for those expecting a bailout package to materialize.

Bottom line

Air Canada's recent earnings results were dismal, but it appears investors are looking well past what's already happened. Indeed, a prospective bailout would significantly improve the investment thesis for Air Canada in the near term. The degree of optimism the market is pricing in this morning in Air Canada stock is higher than I expected. That said, we are in very curious economic times, and stocks are red hot right now.

Air Canada's potential as a turnaround play appears to be supplemented by expectations around a bailout. Whether or not this bailout materializes remains to be seen. However, it looks like the "risk-on" appetite is high right now for stocks such as Air Canada.

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