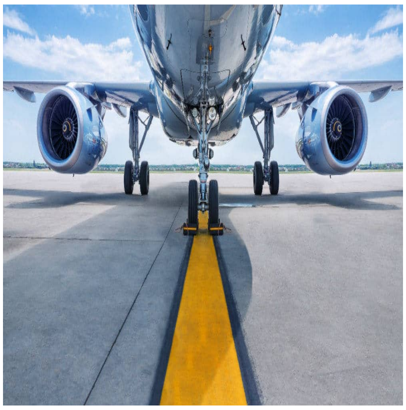

Air Canada (TSX:AC): Can it Keep Defying Expectations?

Description

Air Canada (TSX:AC) stock has been on a major rally lately. Up 25% over the last month, it has defied all expectations. This is particularly surprising considering that its most recent quarter was a miss. In it, the company lost $1.1 billion and, according to *Yahoo! Finance*, failed to hit analyst estimates.

Obviously, Air Canada is not doing well as a company. But it's easy enough to understand why investors are bidding up its stock. With the vaccine now available, it's widely believed that the end of the pandemic is in sight. In theory, that should mean Air Canada's revenue will recover. However, it's not quite as simple as that. In this article, I'll explore why AC may have a longer road to recovery than some think. First, though, let's take a look at those financials.

Air Canada surges despite mounting losses

In its most recent quarter, Air Canada posted the following metrics:

- EBITDA: $-728 million
- Net loss: $1.1 billion
- Net cash burn: $1.38 billion
- Operating cash flows: $768 million net cash outflow
- Unrestricted liquidity: $8 billion

Of those figures, only the last one on the list could be considered a positive. $8 billion in unrestricted liquidity means that the company has a lot of funds available to cover operating expenses. However, in order to get all that liquidity, the company had to sell new debt and issue new equity. So, now, each share owns a proportionally smaller claim on a smaller pie.

The pandemic continues

The most likely cause for AC's recent rally is optimism regarding the eventual end of the pandemic. It stands to reason that when the pandemic ends, air travel will pick up again. On top of that, Air

Canada's rally began on the exact same date that **Pfizer** announced its vaccine, suggesting the two developments were linked.

However, there are significant challenges to the thesis that the end of the pandemic will launch a rapid business recovery for airlines. These include the following:

- A slow pace of vaccination: As of February 13, only 2.5% of Canada was vaccinated. At this rate, it will be at least a year until 50% of the country has received the vaccine.
- New variants: New COVID-19 variants from all over the world have entered Canada, and the vaccine's effectiveness against them is not certain.
- People playing it safe: It's possible that many people will opt not to travel, even after the pandemic is effectively over, just to play it safe.
- Overall economic weakness: The COVID-19 pandemic caused a recession and its effects — such as unemployment — will be felt long after the pandemic is over. High unemployment tends to be correlated with reduced demand for travel. So, Air Canada's revenue may remain depressed for years to come.

Foolish takeaway

In its first-quarter 2020 earnings release, AC said that it would take three full years to get back to 2019 revenue levels. So far, that prediction has been consistent with the observed reality. Ultimately, the COVID-19 pandemic is still very real, and nobody knows when it will truly be over. So, Air Canada may have more brutal quarters ahead of it.

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