Is Air Canada (TSX:AC) Stock Headed to $50 on Q1 Revenue Beat?

Description

Air Canada (TSX:AC) — the largest Canadian airline — reported its first-quarter results on Friday before the market opening bell. The airline pleasantly surprised investors by reporting better-than-expected revenue, even as it continued to burn cash during the quarter. Investors appeared to react positively to its earnings report, as Air Canada stock rose by over 3% this morning at 11 AM EST.

Let's take a closer look at some key possible reasons for investors' positive reaction and find out if its stock could continue to soar in the coming weeks after its latest earnings event.

Air Canada Q1 2021 earnings

In Q1 2021, Air Canada's operating revenue stood at $729 million. While this was nearly 80% lower than its revenue of nearly $3 billion in the same quarter last year, it was better compared to analysts' consensus estimate of $669 million. Its revenue beat was primarily due to consistent improvement in its all-cargo flight's revenue, as it rose by 89% year over year.

The COVID-19 resurgence in Canada and related restrictions in the first quarter continued to hurt Air Canada's bottom line badly. That's why it burnt about $1.3 billion cash in Q1, translating into an average of around $14 million loss per day. Its quarterly losses were also wider than analysts' expectations, as the pandemic-related issues continued to hurt the airline's advance ticket sales.

The path to recovery

At the end of the first quarter, Air Canada had unrestricted liquidity of about $6.6 billion. It excluded the liquidity from the government-provided financial package that gives the company access to up to $5.9 billion in liquidity.

With these funds, the Quebec-based airline company plans to consistently prepare itself for a sharp recovery in the post-pandemic world. Stressing on these efforts, Air Canada CEO Michael Rousseau said that the company "is poised to emerge strongly from the pandemic." But at the same time, he urged the government to “communicate and implement a reopening plan for our country.”

Rousseau highlighted how many other nations — including the United States — have recently seen a sharp rebound in the travel demand due to factors like reopening the economy and safely easing travel restrictions, as the vaccination programs roll.

What’s next for Air Canada stock?

Air Canada’s better-than-expected Q1 revenues and its CEO’s positive comments about the expected recovery in travel demand could be the two main reasons that triggered a rally in Air Canada stock on May 7.

On the one hand, I find its management’s optimism about the expected sharp recovery a little comforting. On the other, I believe this recovery might not be as easy as it sounds. I continue to believe that it might take at least a couple of years for Air Canada to regain travelers’ confidence in the post-pandemic world and reach near its pre-pandemic revenue level.

Air Canada stock is currently trading near $25 per share with nearly 9% year-to-date gains. Its path to $50 per share now highly depends on the Trudeau administration’s willingness to act fast and ease travel restrictions. Gradually easing travel restrictions — keeping COVID-19-related safety measures intact — could encourage more people to start reusing air travel more frequently.

Foolish takeaway

It’s not surprising to see a stock rally after its management tries to boost investors’ confidence with positive comments. That’s apparently what we saw today, as Air Canada stock rallied, despite reporting wider-than-expected adjusted net losses in Q1. However, it might be difficult for the stock to sustain these gains for very long without a concrete fundamental recovery plan.

Given these uncertainties with Air Canada stock, you may want to invest a good part of your portfolio in other high-growth stocks that could help you get much better returns in the long run.

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