Air Canada (TSX:AC) Stock: Do its Q1 Results Make it Worth Buying?

Description

Air Canada (TSX:AC) reported its mixed first-quarter results on Friday last week. While the airline managed to beat analysts' consensus revenue estimates, it reported wider-than-expected losses for the quarter. Nonetheless, its stock settled with more than 3% gains on May 7. The company's management tried to boost investors' confidence by expressing optimism about the future outlook of the travel demand in the post-pandemic world. This could be the main reason for its stock rally on Friday.

But let's find out whether Air Canada's latest earnings event made its stock worth buying in May 2021.

Air Canada's latest results

In the quarter ended March 2021, the largest Canadian airline reported an adjusted net loss of $3.74 per share — missing analysts' estimate of a $2.82 loss per share. Its operating loss for the quarter rose to nearly $1 billion against an operating loss of $433 million in the same quarter of 2020. Air Canada's revenue fell by 80% year over year in Q1 2021 to $729 million — still better than analysts' expectation of $669 million. A massive jump in its all-cargo operations revenue helped it exceed analysts' overall revenue expectations.

While the airline has discontinued or significantly reduced its number of operational flights on many routes in the last year, its passenger load factor on operational routes is still low at around 43.5%.

Key factors hurting its operations

During its latest earnings conference call, Air Canada's management blamed the introduction of new layers of COVID-19-related travel restriction that significantly affected the travel demand in the first quarter. These restrictions included implementing mandatory testing upon arrival, an up to three-day hotel quarantine at the traveler's expense, and all incoming passengers to Canada requiring a negative COVID test report before boarding.

Considering the significant negative impact of these restrictions, Air Canada's president and CEO Michael Rousseau said that "it is now essential that governments communicate and implement a reopening plan for our country." He pointed out the government should recognize that "a healthy aviation sector is vital to Canada's economic recovery."

Is Air Canada stock worth buying after the event?

After posting its 52-week high of $31 per share on March 15 this year, Air Canada stock has been on a downward trajectory. Since then, the stock has seen nearly 20% value erosion. I admire the way the Canadian flag carrier has significantly improved its all-cargo flight operations lately. However, the path to its financial recovery remains difficult — despite getting access to the government-provided $5.9 billion liquidity.

Unless the government soon takes the necessary decisions to implement a reopening plan, the travel demand might not start to recover. And without the demand, Air Canada's financial recovery is virtually impossible. And we must not forget that the airline is now bearing extra costs of providing full refunds to all affected customers during the COVID phase.

Foolish takeaway

While I won't deny that Air Canada stock could stage a big rally if the travel demand somehow miraculously recovers in the coming months, the chances of it happening are very low. That's why you may not want to buy its stock at the moment — especially when you have far better opportunities in the market. In my opinion, cheap growth stocks with good fundamental trends could yield much better returns in the long term than Air Canada stock.

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