Air Canada’s (TSX:AC) Quarterly Results Are in: Is the Stock a Good Buy?

Description

Air Canada (TSX:AC) recently released its quarterly earnings report for the first quarter of fiscal 2021. The battered and bruised airline stock managed to beat analysts’ expected revenue consensus. However, it also beat expectations for losses in the quarter.

Surprisingly, the stock has settled on its share price at the time of writing, despite the quarterly earnings report. The company’s management has attempted to inspire confidence among shareholders by discussing the optimistic outlook for travel demand as the pandemic subsides.

The optimism could be the reason that Air Canada is still trading for $25 per share. But let’s discuss whether its earnings report indicates that it is a stock worth adding to your portfolio.

Air Canada’s Q1 2021 results

In the quarter that ended in March 2021, Air Canada reported an adjusted net loss of $3.74 per share — significantly higher than the estimated loss of $2.82 per share. The airline stock’s operating loss for Q1 2021 rose to almost $1 billion, much higher than its operating loss of $433 million in the same period last year.

Air Canada’s revenues declined to $729 million in the quarter, representing an 80% year-over-year decline. However, analyst expectations were for a revenue decline to $669 million. Air Canada’s significant focus on all-cargo operations led to enough revenue generation to help it beat overall revenue expectations from analysts.

Problems for the airline’s operations

Air Canada’s management blamed the introduction of additional COVID-19-related travel restrictions as the primary reason for dropping air travel demand in its earnings conference call.

The restrictions included mandatory testing on arrival and up to three-day hotel quarantines that the travelers would have to pay for themselves. Additional restrictions include that all passengers coming to Canada must have a negative COVID-19 test report before they board the flight.

Is it worth buying after its earnings report?

Air Canada was at its 52-week high of $31 per share on March 15 this year, but it has declined steadily since hitting that figure. The airline's focus on its all-cargo operations has improved revenues for Air Canada. However, its recovery to profitability remains challenging, despite the government's massive $5.9 billion bailout.

Unless the government implements a viable reopening plan, air travel demand could remain low. Without the necessary demand, Air Canada could be looking at more difficulties ahead before it can start to recover. It is also a good time to remind you that the airline is also responsible for paying back complete refunds to all the canceled flights during the onset of the pandemic.

Foolish takeaway

I will maintain that Air Canada stock could see massive gains on the TSX if there is a significant recovery for air travel demand in the coming months. However, the chances of international air travel returning to complete normalcy are slim to none in such a short time.

The airline stock might be an excellent investment for long-term wealth growth. However, Air Canada might not be the best addition to your portfolio if you seek short- and medium-term gains. You could consider investing in cheaper growth stocks that could rally in the future and yield far better returns on your investments in the long run.

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