Should You Buy Air Canada Stock Before Its Q2 Results?

Description

We have just entered the Q3 of 2021, which means earnings season has begun and stocks will remain volatile based on their performance in Q2 as well as any guidance the management provides for Q3 and beyond. Keeping these factors in mind, let's see if you need to buy **Air Canada** (TSX:AC) stock before its earnings release on July 23, 2021.

What to expect from Air Canada in Q2?

Bay Street expects Air Canada stock to report sales of $845 million in the second quarter of 2021, an increase of 93.7% year over year, compared to sales of $436.36 million in the year-ago period. This will allow Canada's leading airline to narrow its loss per share to $2.77 in Q2 compared to a loss of $4.01 in the prior year's quarter.

All eyes will also be on the management guidance for Q3 and 2021. Bay Street has forecast Q3 sales to rise 186% to $2.16 billion, while sales in 2021 might grow by 6.1% to $6.19 billion. Air Canada is also expected to narrow its loss from $1.96 per share in 2020 to $8.93 per share in 2021.

Will AC stock make a comeback?

The COVID-19 continues to weigh heavily on the capital-intensive airline sector that was completely decimated last year. The pandemic is far from over and lockdown restrictions in major Canadian provinces such as Ontario are yet to be completely relaxed.

While Canada's vaccination rollout has gained a significant pace in the last three months, several major economies are running behind schedule.

These factors will delay the recovery of the global economy, which means international travel will remain subdued in the near term despite pent-up demand. Even if restrictions are completely lifted, Canada and many other countries are likely to only allow tourists who are completely vaccinated to enter the country.

Further, over the long-term, the high margin business class vertical of Air Canada and its peers will be impacted due to the shift toward the work-from-home trend. While analysts expect Air Canada sales to rise by 132% to $14.35 billion in 2022, it will still be below record sales of $19.1 billion in 2019. In fact, Air Canada sales stood at $18 billion in 2018 and $16.3 billion in 2017.

It will likely take at least two more years for air traffic to reach pre-pandemic levels.

What's next for investors?

In Q1, Air Canada increased its available liquidity via a series of debt and equity financing agreements with the Government of Canada. It can access up to $5.37 billion in debt financing through repayable loans as well as equity investments for gross proceeds of $500 million.

At the time of its Q1 earnings call, Air Canada's unrestricted liquidity under its credit facilities with the government stood at close to $4 billion.

In Q1 of 2021, the company's net loss stood at $1.3 billion, which means Air Canada has some leeway to turn profitable before raising additional capital. AC stock is trading at a discount of 12% to consensus price target estimates, making it a high-risk bet given the uncertain macro environment.

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