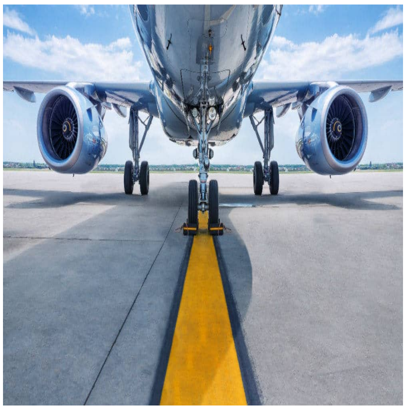

3 Numbers That Could Drive Air Canada (TSX:AC) Stock Post Q2 Earnings

Description

Air Canada (TSX:AC) stock has recently entered a bear market zone, falling 20% since last month. While the Delta variant of the coronavirus indeed poses a threat to global recovery, the risk will likely be in the short term. What will be the next big trigger for Air Canada stock is its Q2 earnings. It plans to release its quarterly results on July 23. Here are three things to watch out for in the flag carrier's upcoming earnings.

Cash burn

Air Canada continued to burn billions of dollars per quarter, as its fleet remained grounded amid restrictions. Its cash-burn rate accelerated after notably dipping in Q3 2021. Air Canada's net cash-burn rate stood at $14.5 million per day in the last six months.

While cash burn is indeed unavoidable for passenger airlines, it significantly dents the company's balance sheet. However, Air Canada dons one of the strongest liquidity positions across the board. Its cash-burn rate in Q2 2021 could notably drive investor sentiment.

Top-line recovery

Air Canada has already mentioned that it could take at least three years post-pandemic to reach its 2019 profitability levels. Its bottom line could continue to get severely hammered in Q2 2021, but investors seem quite hopeful about its revenue recovery.

Analysts expect Air Canada to report revenues of $845 million for the quarter that ended on June 30, 2021. That's an encouraging 60% growth year over year. Higher revenues will likely help Air Canada lower the cash burn during the quarter. Notably, the flag carrier has reported $2.8 billion in revenues — an 85% revenue decline in the last 12 months due to the pandemic.

Operating capacity

Many developed countries have seen a remarkable air travel demand recovery in Q2 2021. Air Canada has also been adding routes to its network, particularly in the U.S. and Europe, to cater to the returning demand. The management commentary regarding its operating capacity for the next few quarters will be an important cue for investors.

In Q1 2021, Air Canada operated with 18% capacity compared to Q1 2020. We might see a significant surge in operating capacity in Q2 2021 on a year-over-year basis driven by the base effect. Interestingly, an upbeat outlook on the capacity front for the next few quarters could drive AC stock notably higher.

Higher consumer spending post-pandemic will majorly go towards travel and leisure. Therefore, Canada's biggest passenger airline could benefit from the higher demand. As earlier stated, even if short-term recovery looks shaky due to the mutating virus, widespread vaccinations should drive the recovery in the longer term.

Is AC stock a good investment?

While many reopening stocks have doubled or tripled since last year, AC stock is still trading at a 55% discount against its pre-pandemic highs. However, its disciplined cost management, leading market share, and operational efficiency will likely fuel faster recovery in the normalized world.

Its strong balance sheet is further fortified with a large bailout package from the Canadian government. As a result, Air Canada is one of the few airlines in Canada that is well placed to benefit from the superior demand post-pandemic.

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