3 Reasons Why Air Canada (TSX:AC) Stock Could Make You Rich

Description

With its flights grounded and most of its services unavailable, 2020 is the year **Air Canada** (TSX:AC) would like to forget. Its revenues and capacity nosedived, while net cash burn zoomed, taking a significant toll on its bottom line, and in turn, its stock price.

While the resurgent virus continues to play spoilsport and hurt Air Canada's near-term prospects, the ongoing vaccination, easing travel restrictions, pickup in domestic demand, and focus on revenue diversification have rekindled hopes of recovery and led to a rise in its stock price.

Despite the near-term hiccups, I am bullish on Air Canada's long-term prospects and expect it to deliver stellar returns for its investors. Let's dig deeper and see what could drive Air Canada stock higher.

Improving financial performance

Air Canada has delivered back-to-back improvement in its quarterly financial performance, thanks to the increasing vaccination rates and easing travel restrictions in Canada.

On July 23, Air Canada announced impressive Q2 numbers wherein it reported operating revenues of $837 million, up 59% year over year. Further, it also compared favourably with the previous quarter, when it posted revenues of $729 million. Air Canada's available seat miles (ASM) increased by 78.4% in Q2. Furthermore, its revenue passenger miles (RPM) recorded an improvement of 115.4% year over year.

Notably, Air Canada's net cash burn of $745 million or $8 million per day came way better than management's expectations of between $13 million and $15 million, which is encouraging.

Looking ahead, Air Canada could witness significant growth in bookings, reflecting easing travel measures and relaxation of the mandatory quarantine period for fully vaccinated returning Canadians.

Moreover, the airline company expects its ASM capacity to jump on a year-over-year basis. Also, Air Canada expects a solid improvement in its net cash burn rate. It projects a net cash burn of $3-$5 million per day in Q3, significantly lower than the prior-year period and the previous quarter.

Revenue diversification

Air Canada’s focuses on diversifying its revenues provide a solid underpinning for future growth.

Notably, it operated more than 10,000 all-cargo flights since March 2020 and even offered cargo services on passenger flights that have generated incremental revenues. The company plans to continue using its mainline wide-body aircraft in 2021, which could continue to drive its cargo revenues and contribute meaningfully to its top-line growth. Further, higher demand from the e-commerce sector and its dedicated freighters bode well for future growth.

Stock trading cheap

The resumption of domestic operations, easing travel measures, and improving traffic has led to a strong recovery in Air Canada stock. It has gained over 49% in one year.

However, it is still available at a significant discount from its pre-COVID-19 levels, making it an attractive investment at current price levels.

Bottom line

I believe improving financial and operating performances, increasing bookings, revenue diversification, declining net cash burn rate, and strong liquidity positions it well to navigate the crisis and deliver strong returns in the coming years.

Furthermore, as Air Canada generates a significant amount of its revenue and operating profit from international operations, the reopening of international borders could accelerate its pace of recovery and boost its stock price.

However, investors should note that Air Canada stock could continue to remain volatile in the near term.

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