Air Canada (TSX:AC) Stock: 4 Quick Reasons to Buy it Today — After its Q2 Event

Description

Air Canada (TSX:AC) announced its second-quarter results on July 23. The airline's Q2 revenue rose by 59% YoY (year over year), while its net losses fell on a sequential basis. But its sales and earnings missed analysts' consensus estimates by a narrow margin. It reported total revenue of $837 million — 1.3% lower than estimates of $848 million. Similarly, the largest Canadian airline's adjusted net loss for the quarter stood at $1.08 billion — slightly more than Street's expectation of $1 billion.

Nonetheless, its latest quarterly earnings event gave investors several reasons to buy Air Canada stock right now. I'll quickly discuss four of these key reasons here — pointing towards an expected sharp near-term rally in the stock.

The positive bookings trend

As I said in one of my recent articles, the latest trend in Air Canada's bookings was one of the important factors that I wanted to get clarity on during its Q2 earnings event.

In its latest earnings report, AC's management confirmed that gradually reducing travel restrictions last month led "to a significant increase in bookings." The airline added that it expects "this trend to further increase following the July 19th announcement communicating positive changes to come for Canadian travel restrictions."

Improving cash-burn rate

On average, Air Canada burnt nearly $8 million cash per day in the second quarter. This cash-burn rate reflected a significant improvement from its cash-burn rate of around $14 million per day in the previous quarter. More importantly, it was also much better than the airline's earlier Q2 cash burn projection of between $13 million and $15 million per day.

No staff shortage

As the travel demand is recovering fast, many large airlines are currently facing staff shortages. Some large airlines in the United States have recently confirmed staff shortage issues. On the positive side, Air Canada seems to be taking proactive steps to ensure that such labour issues don't become an obstacle in its way of meeting the rising demand. Its CEO Michael Rousseau said during the Q2 earnings call that "there is no issue from a pilot perspective here at Air Canada."

The company has already started calling its other staff back as well. "We're finding everyone's coming back. we are not getting — we're getting virtually no one saying, listen, I found something else, I don't want to come back," Rousseau added.

Improving outlook

Given all the positive factors that I've noted above, Air Canada's sharp financial recovery could start very soon. That's one of the reasons why the airline is planning to increase its third-quarter ASM (available seat miles) capacity by about 85% on a YoY basis. The Canadian flag carrier would also continue to dynamically adjust its ASM capacity based on the demand.

According to its latest guidance, Air Canada expects its daily cash-burn rate in Q3 to average around $3-$5 million per day — including its capital expenditures expectation of about $2 million per day. This guidance reflects a massive improvement over its $8 million average daily cash burn in Q2. These are some of the key reasons that I expect to trigger a big rally in Air Canada stock in the near term.

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