Air Canada (TSX:AC): Watch Out for the Next Rally

Description

Air Canada (TSX:AC) stock has been in a bit of a slump lately. After peaking at $29.80 in March, the stock went on to decline for most of April, May, June, and July. As of this writing, it sat at about $25. AC stock began rallying in November of last year when the COVID-19 vaccine was announced, but it ran out of steam when it became clear that the company was still losing money.

In this article I'll explore the recent developments at Air Canada and whether they point to the possibility of a renewed rally.

Second-quarter earnings: Surprisingly not terrible

On July 23, Air Canada released its earnings for the second quarter of 2021. They were surprisingly not that bad. It was the first quarter of positive revenue growth the company delivered since the COVID-19 pandemic began, and the losses were smaller than the prior quarter. In Q2, Air Canada posted the following results:

- Revenues: $837 million, up 59%.
- EBITDA: $-656 million.
- Operating loss: $-1.1123 billion.
- Net cash burn: $745 million.
- Net loss: $-1.165 billion.

These results were better than the first quarter when the net loss was $1.3 billion and cash burn was over $1 billion. They were also better than the same quarter a year before when the most severe COVID-19 lockdowns were in effect. So we've got Air Canada making progress here.

But the fact remains: the company is losing money. A $1.165 billion net loss is nothing to sneeze at. If repeated for four quarters it would take us to a $4.66 billion total loss–about what Air Canada lost in 2020. The first quarter, of course, showed a $1.3 billion loss, so if things don't improve, Air Canada will lose just as much in 2021 as it did in 2020.

North American air travel rebounding

Despite the dire state of Air Canada's finances, there is at least one encouraging sign for the company:

A massive rebound in North American air travel.

Airports are now seeing millions of passengers a day instead of the hundreds of thousands they would get in 2020. Airline revenues are on the rise. There are reports of rental cars and vacation spots being booked solid. If these signs are any indication, people are making up for lost time and doing a lot of traveling in the summer of 2021.

That's a very bullish sign for airline stocks like Air Canada because it suggests that their revenue is going to rise. Of course, the rebound in travel has been much more pronounced in the U.S. than in Canada.

The U.S. generally lifted COVID-19 restrictions much sooner than Canada did, and it shows. Canadians still aren't travelling much, but it's beginning to pick up.

Foolish takeaway

It's been a tough few years for AC shareholders. Following a few months' rally on vaccine news, the stock is slumping again, and nobody knows when it's going to end. It looks like the COVID-19 era doldrums will be with this company for a while. But if Q3 earnings beat, I wouldn't rule out the possibility of a rally.

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