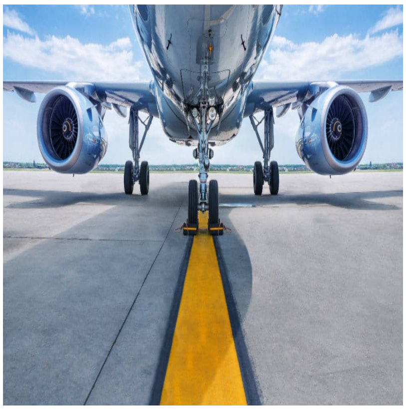

Air Canada: Is the Stock a Buy Post-Q2 Results?

Description

Air Canada (TSX:AC), Canada's largest airline, has seen its shares fall 15% in the last month mainly due to the spread of the COVID-19 Delta variant, which might result in lockdown restrictions once again. However, it has also surged about 59% in the past 12 months and 9% year to date. Let's see if the recent pullback provides a buying opportunity for investors.

The surge in travel demand

As the travel restrictions and quarantine rules for travelers around the world are ceasing steadily, an increase in travel demand is being observed now, especially around North America. Air Canada's management has confirmed the company is experiencing gradual development in the advance booking trend since the month of June.

Before the pandemic, the company used to earn 22% of its revenue from the U.S. alone and 47% from other countries. The pandemic had taken away 70% of its earnings, as the borders were closed and travel restrictions were imposed. Though a considerable amount of time will still be required to bring the demand to pre-pandemic levels, the fact that travel restrictions are easing now coupled with the rise in vaccination rates should positively impact Air Canada's financials in the coming days, and the company will likely see even stronger top-line growth in the next few quarters.

Air Canada aims to capitalize on the higher demand

As the demand for travel is increasing steadily, Air Canada aims to take advantage of this shift in consumer spending. Now, when many North American airline companies are impacted by staff shortages including pilots, Air Canada has made sure it has an adequate number of pilots so that there is no obstacle on its way towards financial recovery.

Air Canada intends to operate up to 220 flights a day on 55 routes between Canada and the United States. Additionally, it has also planned other offerings, like starting two new winter services to two major sun destinations in Florida and operating a higher frequency of flights to Mexico and the

Dominican Republic. All these initiatives indicate the company is preparing itself aggressively to capitalize on the higher demand that is going to come up during the coming days.

Improved financials

After having a sloppy 2020, Air Canada's Q2 results released last month revealed the company has improved its balance sheet position significantly. It was able to successfully minimize its loss by $587 million in its second quarter compared to the same period of last year.

This reduction in the loss was the result of the 58.8% year-over-year increase in the company's revenues. Air Canada's passenger revenue had more than doubled while the cargo revenue had increased by 33% to a record $358 million. Moreover, the company's EBITDA loss was better than expected because of the improved cost-control measures and the rapid market demand-based capacity adjustments implemented by the company. The net cash burn was also reduced to $745 million.

The above-mentioned points ensure Air Canada has been gradually strengthening its balance sheet and moving towards recovery. Though the stock could only book 9.7% gains so far this year while the composite index has already risen by 16.4%, the initiatives taken by the company to amplify its revenues are indeed remarkable. All these measures would ensure better wealth creation in the long run for the investors.

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Date
2025/09/11
Date Created
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