Why the Delta Variant Won't Stop Air Canada's Rise

Description

Last month, I'd discussed why I was still bullish on **Air Canada** (TSX:AC) stock in 2021 and beyond. Shares of Canada's top airliner have climbed 9% in 2021 as of early afternoon trading on August 18. The stock has surged 51% in the year-over-year period. Today, I want to discuss why the company should not be counted out in the face of the rising Delta variant. Let's dive in.

How is the Delta variant impacting Canada's economic recovery?

The highly contagious Delta variant was first discovered in India in late 2020. Now, the variant makes up most new COVID-19 cases in North America. The United States started off very well with its vaccination rollout, while Canada lagged its peers. This trend has reversed in the spring and summer of 2021, but both countries still carry a sizable section of the population that have avoided vaccination. Health officials warn that this could lead to a dangerous surge in hospitalization rates going forward.

Delta's spread is unfortunate for Air Canada and other companies who were geared up for a rebound in the latter half of 2021. Canada's top airliner forecasted an increase in bookings for domestic and U.S.-bound flights in the winter, as it benefited from lighter travel restrictions. This would lead to a slower cash burn going forward.

Air Canada reached a lucrative aid deal with the federal government earlier this year. This provided some padding for a company that has been forced to use up some of its sizable cash reserves in the face of this crisis.

Why I'm sticking with Air Canada in 2021 and beyond

Air Canada unveiled its second-quarter 2021 results on July 23. Operating revenues increased 59% year over year to $837 million. The company still struggled with hostile conditions as this crisis persists. It reported negative EBITDA of $656 million. This was still up from the prior year. Air Canada posted an operating loss of $1.13 billion — up from an operating loss of $1.55 billion in Q2 2020. It still closed out the quarter with unrestricted liquidity of $9.8 billion.

The company's cash burn came in lower than management's expectations. Management said that this was due to increased bookings and improved cost controls. Air Canada is optimistic that further easement of restrictions will lead to increased demand. This trend has been apparent in countries that have progressed further in their reopening plans than Canada.

How does Air Canada's value look right now?

Shares of Air Canada have hovered near technically oversold levels since the end of June. The stock last had an RSI of 39, which still puts it in neutral territory. However, the stock is trading in favourable value territory in comparison to its industry peers.

Air Canada managed to ride an economic rebound throughout the 2010s and proved to be one of the top growth stocks on the TSX. Developed countries will need to adjust to the realities of COVID-19, and this includes the appearance of variants. Investors should feel confident that Air Canada will be able to weather the storm, as policymakers are eager to avoid a return to the restrictions we saw throughout 2020 and early 2021.

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