Air Canada (TSX:AC) Stock: 4 Reasons to Buy the Stock This Month

Description

Air Canada (TSX:AC) investors have long waited for the beleaguered airline stock to show some solid signs of improvement after several consecutive quarters of being on the verge of declining into oblivion or straying dangerously close to it. For the longest time, the airline has not managed to fly to the heights that its investors are used to seeing it at, and many might be losing hope.

However, it is a massive name in the Canadian airline industry, and it is virtually impossible to see its wings get clipped. We might see the airline stock make a strong comeback before the year ends, and there are several reasons why that is a possibility.

Share prices rose for the airline in March for a brief period before tanking again. At writing, the airline stock is trading for $24.02 per share, and it is up by only 8.64% on a year-to-date basis. Today, I will discuss some of the reasons it could still be an undervalued stock worth adding to your portfolio today.

Measures to improve revenues

It hasn't been completely bad news for the airline. Air Canada's operating revenues increased by almost 60% in Q2 2021 compared to the same period last year, and it reduced its EBITDA by 21.2% in the same period. The airline's average seat mile capacity rose by 78% year over year, and it has already increased the number of destinations for the peak travel season.

Reduced cash burn

The management's cost-cutting measures have started to show results, as the airline's cash rate reduced from an anticipated $13-15 million to $8 million per day. It is still a lot of cash burn, but it's a massive improvement from the airline's estimates. Air Canada's management expects to see its financial performance improve due to the reduced cash-burn rate of between $3 and $5 million per day in the third quarter for fiscal 2021.

Increasing cargo business

Air Canada expanded its cargo-only flight operations due to the pandemic, owing to a decline in passenger flights. The airline flew its 10,000th cargo-only flight on July 5, 2021, surpassing expectations for its revenues. The airline's air cargo business revenue increased by over 33% year over year in Q2 2021, and it could continue expanding this segment to improve revenues further.

Substantial liquidity

The airline finally managed to pay off its US$400 million worth of Senior Unsecured Notes in mid-April 2021. After Q2 2021 ended, the airline launched the syndication of a new secured loan B with a maturity set for 2028, giving the airline ample time till it has to pay down the debt. The airline's management also plans to use the estimated US$5.35 billion proceeds from its refinancing transactions to fund its general corporate expenses like its working capital.

Foolish takeaway

Air Canada's performance on the stock market so far does not show that it is going to turn the page and close this chapter of uncertainties and declines. However, the airline's management seems to be doing all it can to make it possible for its carrier flights and share prices to soar to greater heights again. A breakout for Air Canada is in the cards, and it might be worth investing in today.

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Date
2025/08/16
Date Created
2021/09/11
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