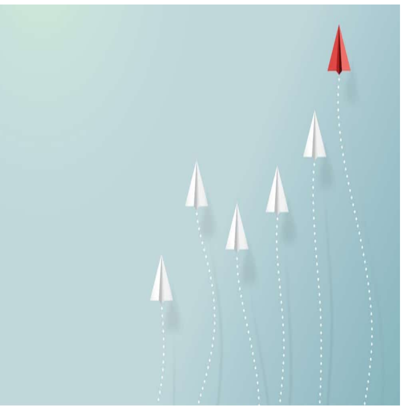

Air Canada (TSX:AC) Revenue Soars 165% in Q3!

Description

Air Canada (TSX:AC) just released its earnings for the third quarter. The company posted massive year-over-year growth. In Q3, AC delivered $2.103 billion in sales, up from $757 million a year before. That's a 165% growth rate — earnings nearly tripled!

Q3 earnings highlights

Air Canada's third-quarter report featured strong revenue growth and other encouraging metrics:

- -$67 million in EBITDA
- -$364 million in operating income
- $153 million in **positive** net cash flow
- -$640 million in net income

Now, looking at all of those negative signs, you might be wondering how any of this can be called "encouraging." The reason is that they are massively improved, both sequentially and on a year-over-year basis. In the second quarter of this year, Air Canada reported the following:

- $837 million in sales
- -$656 million in EBITDA
- -$1.133 billion in operating income
- -$754 million in **negative** cash flow
- -$1.165 billion in net income

For the third quarter of 2020, it reported the following:

- $757 million in sales
- -$554 million in EBITDA
- -$785 million in operating income
- -$568 million in free cash flow
- -$685 million in net income

So, as you can see, Q3 2021 beat both the previous quarter and the same quarter from last year. Those are pretty decent results.

The markets apparently agreed that the results were good, as AC stock soared 4% on the day they were announced. It's not surprising. Not only was revenue up, but AC was inching closer to profitability in the third quarter. Net cash flow was positive for the first time since COVID-19 came on the scene, and profit metrics significantly improved while still being negative.

Risks still remain

It's clear that Air Canada's Q3 earnings showed growth. However, the stock still faces a number of risk factors that investors need to be aware of:

- **The COVID-19 Delta variant.** Delta and other new COVID variants are thought to be more contagious, more vaccine-resistant, and potentially more lethal than the original. Even with Canada's 72% vaccination rate, people are still dying of COVID-19. So, risks to public health and, by extension, risks to airlines remain.
- **Financing costs.** Air Canada has hundreds of millions in interest expenses every single quarter. It needs huge amounts of revenue in order to break even, thanks to these and other fixed costs. As we saw in Q3, even a nearly 200% increase in revenue wasn't enough to produce profits. More sales growth will be needed.
- **Fuel costs.** In 2020, the COVID-19 pandemic caused Air Canada's revenue to collapse. Now, the recovery from COVID is putting pressure on its margins. With the economic recovery, fuel prices have been rising. As of this writing, WTI crude went for $84 and Brent crude went for $85. These are the highest oil prices seen in years, and they translate to higher jet fuel prices, putting pressure on Air Canada.

The risk factors above are no joke. Any one of them could keep Air Canada from being profitable in a given quarter. But with revenue on the rise, the *potential* for profit, at least, is there. So, there is reason for optimism.

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