



Why Air Canada (TSX:AC) Soared 4.4% Yesterday

Description

Air Canada ([TSX:AC](#)) stock rose 4.4% yesterday in one of its best one-day rallies in months. The rally coincided with a pretty impressive earnings release, which saw revenue rise 165% year over year. The huge beat on revenue probably explained the lion's share of the rally. Still, there are other factors that may have contributed to it. In this article, I'll explore some factors that may have contributed to Air Canada's impressive 4.4% one-day gain.

Huge revenue growth

The most likely contributor to Air Canada's Tuesday rally was its [third-quarter earnings release](#). In it, the company delivered a number of greatly improved metrics:

- \$2.1 billion in revenue, up 165%
- \$153 million in net cash flow, up by \$540 million
- -\$67 million in EBITDA
- -\$364 million in operating income
- -\$640 million in net income

All those negative numbers look bad at first glance, but in reality, they're not. The thing is that while Air Canada is still losing money, the magnitude of the losses has decreased significantly. In the quarter before this one, the net loss was \$1.165 billion. So, the \$640 million net loss in the most recent quarter is a big step up. Sure, AC is still losing money, but the magnitude of the losses is getting much smaller. Additionally, cash flow is actually positive now after several quarters of sustained cash bleed.

COVID-19 risk factors fading

Another factor that may have contributed to Air Canada's Tuesday rally is the gradual [waning of COVID-19-related risk factors](#). Ever since it came on the scene, COVID-19 has been the elephant in the room that is the airline industry. Thanks to the lockdowns and self-isolation orders that came with it, COVID-19 severely disrupted air travel. In the first quarter after COVID lockdowns began, Air Canada

reported a 90% decline in revenue.

Since then, the COVID-19 pandemic has cost Air Canada billions of dollars. In 2020, the company lost \$4.6 billion. In 2021, billions more in losses have accumulated. However, the COVID-19 risk factors are beginning to fade. Among other things:

- We now have vaccines.
- The vaccination rate in Canada is over 70%.
- The Delta variant is not leading to a massive surge in cases, as many had anticipated.
- No regions in Canada are pursuing an Australian-style “COVID zero” policy (which would require new lockdowns for just a handful of cases).

If you take all of these factors together, it looks like the COVID-19-related risks to Air Canada are waning. To be sure, a new variant or declining vaccine efficacy could require lockdowns once more. But so far, it looks like the vaccines are pretty effective and that Canadians are by and large getting vaccinated. So, it’s reasonable enough to assume that Air Canada will be able to get back to business as usual. This, perhaps even more than the third-quarter earnings release, explains AC’s 4.4% rally on Tuesday.

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