Air Canada (TSX:AC) Stock: The Worst Is Over

Description

Air Canada (TSX:AC) faced some serious hardships in 2020 and 2021. Between the COVID-19 pandemic, a scuttled M&A deal, and billions of dollars in losses, Canada's biggest airline took a beating–both as a company and in the markets. In March 2020, the stock tanked by 75% as the COVID-19 rocked the aviation industry. After bottoming out at $12.4, the stock began climbing, eventually soaring as high as $29 before falling to $22. Today, AC stock trades for $26.

It had a surprisingly strong revenue showing in Q3, and the stock started rallying, taking it to its highest level in months. Investors are beginning to turn bullish on Air Canada. And they're right to do so.

While the most recent quarterly earnings were technically a miss, they contained some encouraging metrics that gave investors hope. In this article, I'll explore both the COVID-19 situation and AC's most recent quarter, ultimately making the case that the worst may be over for the company.

COVID-19 pandemic waning

One reason to think that the worst is over for Air Canada is the fact that the COVID-19 pandemic is decisively waning right now. As of November 8, Canada had:

- A 74% vaccination rate.
- A 78% partial vaccination rate.
- A downward trend in COVID cases nationally.

Broadly, things are looking up. Vaccination rates are high and cases are down. In such an environment, provinces tend to ease their lockdown and self-isolation orders. This makes it easier for airlines to do business. When there are no 14-day self-isolation orders in place, people are free to travel without mandatory hotel stays. This increases demand for air travel, as people take advantage of the opportunity to fly without restrictions.

None of this is to say that the COVID-19 pandemic is over. We're actually seeing a new wave beginning to emerge in China. With it are coming new lockdowns and other public health measures.

We clearly aren't out of the woods yet. But the current trends are promising.

Most recent quarter was not bad

Another reason to think that Air Canada is past the worst of it is the fact that its most recent quarter wasn't bad. The quarter saw losses and was in fact a miss compared to analyst estimates. It did have some encouraging metrics though. For example:

- $2.1 billion in revenue, up 165%.
- EBITDA: $-67 million (improved from $-554 million).
- Operating income: $-364 million (improved from $-785 million).
- Net cash flow: $154 million (up from a net outflow).

Earnings in the quarter technically missed, but the high revenue and positive net cash flow surprised investors. Air Canada's cash burn was a major concern for most of the past year and a half. In Q3 the problem finally reversed. Investors started buying up AC stock in response.

Foolish takeaway

It's been a tough couple of years for Air Canada shareholders. Between COVID-19, losses, and dilutive equity issues, investors have been through a lot. But we may have finally seen the worst of it. With the pandemic waning and AC delivering positive cash flow, things are looking up. Let's hope the trend continues!

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News

PP NOTIFY USER

1. andrewbutton
2. arosenberg

Category

1. Investing

Date
2025/07/01
Date Created
2021/11/10
Author
andrewbutton