



Will Air Canada (TSX:AC) Return to Pre-Pandemic Financial Shape in 2022?

Description

On November 19, 2021, **Air Canada** ([TSX:AC](#)) issued a press release saying it no longer needs federal support. The reasons for withdrawing from the government program are improved liquidity position and [ongoing recovery](#).

Canada's flag carrier also said it only used \$1.2 billion of the total \$5.375 billion package under the Large Employer Emergency Financing Facility (LEEFF) program. The money went to the payment of passenger refunds. While the \$8.27 billion airline company reported a net loss of \$640 million in Q3 2021, it had \$14.4 billion in unrestricted liquidity.

Given these developments, does it mean Air Canada is on track to return to pre-pandemic financial shape in 2022? Before Q1 2020, the airline company boasted 27 consecutive quarters of profits. It was grounded when the government closed its borders and imposed travel restrictions to prevent the spread of COVID-19.

Convincing sign

Air Canada begged for and received federal government support in April 2021. However, it seems that Air Canada is almost sure that the darkest days of the pandemic are behind them. According to its CEO Michael Rousseau, the vastly improved financial condition was a "convincing sign" of the company's progress after the battering by the pandemic.

Rousseau also expressed deep appreciation to the Government of Canada. He said the support package helped maintain a level playing field when governments worldwide were also assisting their national carriers. The government will still have a 6% ownership stake despite Air Canada's canceling the unutilized \$3.975 billion financing facility.

Q3 2021 highlights

In Q3 2021 (quarter ended September 30, 2021), Air Canada's operating revenues reached \$2.103

billion, or nearly triple the figure in Q3 2020. Notably, operating loss lessened by 53.6% year-over-year to \$364 million. Its air cargo division likewise posted record revenue during the quarter.

Rousseau notes the favourable revenue and traffic trends, particularly the substantial increases in key geographic segments. At the quarter's end, the available liquidity on the balance sheet was around \$9.5 billion. Management said the strong liquidity position is a core element of Air Canada's long-term prospects as it rebuilds.

Regarding fleet expansion, Air Canada purchased two Airbus A220-300 aircraft in Q3 2021 for delivery in 2024. proceed with the purchase of an additional two Airbus The company also made arrangements with Boeing to accelerate the delivery of four 737 MAX aircraft in Q4 2021. By the end of Q2 2022, Air Canada would have 40 Boeing 737 MAX aircraft in the narrow-body fleet.

New industry threat

Air Canada's announcement of improved liquidity position didn't lift the stock. Instead of rising, the presumed [growth stock](#) went on a four-day skid before closing at \$23.32 on November 25, 2021. However, the **TSX** recorded its worst session in 10 months on the next trading day.

Apart from the 10% drop in oil prices, the World Health Organization (WHO) warned of a new COVID-19 variant detected in South Africa. The news caused a [selloff](#) that sent Air Canada shares tumbling by 8.9%. On November 26, 2021, the share price is down to \$21.24, or a 6.7% year-to-date loss.

WHO first has to determine first the effectiveness of vaccines against the new variant. If countries reimpose travel bans, then Air Canada's return to pre-pandemic financial shape could be in doubt. Also, its decision to walk away from LEEFF might be premature.

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