Why Air Canada (TSX:AC) Stock Plunged After its Q1 Results

Description

Air Canada (TSX:AC) stock dived by 7.3% on Tuesday to $22.46 per share, making it one of the worst-performing stocks on the **TSX Composite Index** for the session. This sharp decline in AC stock came after the company announced its Q1 2022 earnings before the market opening bell. Before we dig deeper into Air Canada's latest earnings report, let's take a quick look at its key numbers from the last quarter that drove its stock down.

Air Canada stock dives on wider-than-expected losses

In the first quarter, the largest Canadian passenger airline reported $2.57 billion in revenue, missing analysts' estimates of about $2.64 billion.

Air Canada's adjusted EBIT losses stood at $546 million in the last quarter compared to a $377 million EBIT loss in the previous quarter.

More importantly, the airline company posted an adjusted net loss of around $900 million in the March 2022 quarter against Street analysts' expectation of a $475 million loss. It was Air Canada's biggest quarterly loss in the last three quarters.

Other key highlights of Air Canada's Q1 earnings report

While Air Canada's financials continued to improve year over year in the last quarter, they seemingly failed to impress investors, as the numbers reflected significant sequential weakness. Recently rising fuel prices also increased its cost burden in the last quarter. In Q1 2022, Air Canada's fuel costs stood at 98.6 cents per litre compared to around 62.7 cents in Q1 2021.

In one of my recent articles, I'd highlighted why investors should pay attention to Air Canada's advance ticket sales and revenue passenger miles during its Q1 earnings event, as they reflect the latest trends in passenger demand. While its advanced ticket sales continued to showcase signs of improvements, I didn't find its revenue passenger miles figures very impressive. The Canadian flag carrier's revenue passenger miles in the last quarter stood at 9.48 billion. Although it was significantly higher than 1.83 billion in the first quarter of 2021, the number was still lower than its revenue passenger miles of 9.61 billion in the previous quarter.

What Air Canada's management says

During its first-quarter earnings conference call, Air Canada CEO Michael Rousseau acknowledged that surging fuel prices and the ongoing Russia-Ukraine war-related uncertainties continue to affect the entire airline industry. However, he also noted that the company is trying to manage the risk profile effectively by focusing on long-term projects to increase and diversify revenue and lower costs.

Air Canada's CFO Amos Kazzaz commented about record-high jet fuel prices during the earnings call. However, he believes "that much of this increase can be recovered through fares of the revenue optimization tools, as well as through our continuing focus on cost reduction initiatives."

What's next for Air Canada stock?

After its overall much worse-than-expected first-quarter results, I wouldn't expect Air Canada stock to inch up in the near term. While the company is striving to manage risks, external factors like rising jet fuel prices and the possibility of an economic slowdown due to the ongoing Russia-Ukraine war dim its short-term fundamental outlook. That's why you may not want to buy Air Canada stock right now, unless you have a big risk appetite and can hold it for a very long term.

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