



## Why Air Canada (TSX:AC) Stock Is Trading Close to Its Yearly Lows

### Description

Running an airline business involves tremendous risk because they are highly sensitive to economic cycles. The economic backdrop is becoming increasingly difficult as new challenges like rising inflation arise one after the other. Global airlines are also tackling pandemic-related uncertainties, high jet fuel prices, and an impending recession. Canada's top passenger airline **Air Canada** ([TSX:AC](#)) is no exception. The stock has fallen 26% so far in 2022 and does not look too well placed.

### What's next for Air Canada?

It seemed things were finally falling in place early this year. With travel restrictions waning, airlines saw encouraging demand that drove triple-digit revenue growth. However, seat sales soon turned downward as the war in Europe broke out. Unbending inflation and fast-rising interest rates notably weighed on consumer spending. Thus, like many airline peers, Air Canada is expected to see a delayed recovery as [consumer discretionary spending](#) is expected to dry up amid a probable recession.

Air Canada will report its Q2 2022 earnings on August 2. Apart from the financials, the management commentary and outlook will guide the stock going forward. Analysts expect it to report close to \$4 billion in sales for the quarter that ended on June 30, 2022. That marks jaw-dropping growth of 368% year-over-year.

Even if it registers strong top-line growth, the flag carrier is expected to report a net loss in Q2. What would be interesting to watch is its cash burn trend. Air Canada has burnt billions of dollars since the pandemic amid the subdued demand but inevitable costs. However, if the revenues surge as analysts expect, AC might see its cash burn improve in the second quarter. Notably, in Q1 2022, Air Canada's strict cost-cutting slashed the adjusted cost per available seat mile (CASM) to 21.8 cents versus 40.4 cents in Q1 2021, helping to narrow net losses.

### Air Canada and a looming recession

Air Canada's recovery largely depends on a recession and its severity. A more prolonged downturn will

likely keep discretionary spending lower for longer, brewing serious trouble for the airline. However, a milder one will likely be taken care of by Air Canada's relatively strong balance sheet. The global economy's path will be clearer when the US releases its GDP data this Thursday.

Air Canada has total debt of \$16.2 billion as of March 31, 2022. However, it has a strong liquidity position with \$8.6 billion in cash and equivalents. A strong liquidity position will be like padding, giving it more flexibility to absorb short-term shocks. However, if the recession lasts longer and demand remains subdued, Air Canada will most likely be forced to bring more debt to its balance sheet.

## Should you buy AC stock?

AC stock hit a 52-week low of \$15.6 last month. With broad market uncertainties and more rate hikes on the cards, the stock could continue to trade weak. However, if you are a long-term investor, consider Air Canada's prospects two, three, or five years down the line. Agreed that AC stock has been on a long-term downtrend since January 2020. But it will likely emerge stronger through difficult times and will outperform as macro challenges ebb.

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