



Air Canada – Its Moment Has Come

Description

Air Canada ([TSX:AC](#)) was one of the most badly bruised stocks during the first years of the COVID-19 pandemic. When COVID swept the nation, governments banned travel to certain countries and implemented 14-day quarantines for inter-provincial travel. Predictably, air traffic tanked, and Air Canada's revenue tanked along with it. In 2020, the company lost around \$4.5 billion.

That was then, this is now. Air Canada's last few earnings releases showed the company increasingly inching toward profitability. With COVID lockdowns more or less over, there is good reason to think that the trend will continue. With no lockdowns, Canadians are free to travel all they want – both domestically and internationally – and Air Canada could reap the rewards of this trend.

United Airlines delivers strong earnings

One of the big hints that Air Canada stock could turn it around is the fact that **United Airlines** ([NASDAQ:UAL](#)) – AC's American counterpart – recently delivered a stellar earnings release, and rallied after it was published. In its fourth quarter release, UAL revealed:

- \$843 million in net income.
- \$811 million in adjusted net income (earnings after making some slight adjustments to the accounting rules).
- An 11% operating margin (operating profit divided by revenue).
- Overall capacity down 9% from 2019.

As the release showed, UAL was solidly profitable in the fourth quarter. Operating capacity was still down compared to the pre-COVID period, but the profitability compared to 2021 was strong.

Air Canada could do what UAL did

It's possible that Air Canada could report strong [earnings](#) in its upcoming release, much like United Airlines did. In general, it took longer for COVID lockdowns to end in Canada, compared to the United

States. However, the lockdowns eventually ended in all provinces. Additionally, oil prices have fallen considerably over the last 12 months, so [all airlines](#) will have enjoyed lower fuel prices in the most recent quarter.

What can we expect in the release, then?

At a minimum, we should expect:

- Positive revenue growth.
- Positive operating earnings.
- Possible positive net income (this one is harder to say for sure because more figures go into calculating it).
- Positive operating cash flows.

Given the fact that air travel was allowed to continue mostly unimpeded last quarter, the above estimations are fairly likely to be seen in Air Canada's Q4 earnings release. We've already seen positive operating cash flows in recent releases, so things are headed in the right direction. In the next release, we might even see positive net income, which would be a huge breakthrough for Air Canada in its path back to profitability.

Foolish takeaway

As we've seen, current trends are bullish for Air Canada. Travel is up, and oil prices are down. The basic recipe for higher earnings is there.

Does that mean that Air Canada stock will rally overnight? No. If AC's earnings are good but not as good as expected, its stock could fall. But today, trading at just 0.57 times sales, AC is looking pretty cheap. It wouldn't even take that great of an earnings release for it to start looking cheaper (and more appealing) still. So, mark [February 14](#) on your calendars. It will be an interesting earnings release.

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