



Ready for Lift-Off? Air Canada Stock Gained 16.5% in January 2023

Description

The ongoing improvement in revenues and pickup in traffic trends amid an overall recovery in air travel demand supports the uptrend in [airline stocks](#). Thanks to the favourable operating environment, **Air Canada** ([TSX:AC](#)) stock gained about 16.5% in January 2023.

It's worth highlighting that the leisure travel demand ramped up significantly, coming out of the COVID-19 pandemic. Moreover, Air Canada has witnessed a steady month-over-month improvement in corporate travel, which is encouraging.

Even though things have improved quite a lot from the pandemic lows, shares of the largest Canadian airline company are still trading at a massive discount from the pre-pandemic levels. Against this backdrop, let's examine the factors impacting Air Canada stock.

Improving fundamentals support upside

Air Canada's financial and operating performance has consistently improved, which will likely support its stock. Air Canada's passenger revenues exceeded \$4.8 billion in Q3 (third quarter) of 2022, reflecting a three-fold increase from the prior-year quarter. Its traffic and total operating capacity more than doubled compared to Q3 of 2021.

While Air Canada continued to operate at a lower capacity (about 79%) compared to the third quarter of 2019, its passenger revenue reached nearly 94% of what it achieved in Q3 of 2019. This stark improvement in passenger revenues reflects a better fair mix performance in all cabins, especially in the premium cabin.

Adding to its growth is Air Canada's network diversification which reduces its dependency on any single country or geography.

It's worth highlighting that Air Canada reported positive net cash flow from operations (the fifth quarter in a row). Meanwhile, it reported its first positive quarterly operating income since the pandemic began. It posted an operating income of \$644 million in Q3.

Demand to sustain

While the macroeconomic environment remains challenging, the strength in leisure demand and recovery in business travel will likely support its growth. The company highlighted that it is seeing solid leisure demand exceeding 2019 levels. Moreover, it expects the premium economy and business class revenues to grow.

Further, Air Canada highlighted that U.S. traffic is trending upward, which will support its revenue. Moreover, its expanded joint venture with **United Airlines** will expand its network reach. Also, the advance ticket sales remain solid, leading the company to expand its capacity further.

While passenger metrics are improving, Aeroplan (loyalty program) continues to perform exceptionally well. This is important for Air Canada, as Aeroplan plays a key role in customer acquisitions and retention.

Is Air Canada ready for lift-off?

The solid recovery in demand and improving passenger revenues augur well for growth and will likely drive Air Canada stock higher in the long term. However, its high debt and lack of profitability could continue to restrict the upside potential.

Air Canada had a net debt of \$7.82 billion at the end of Q3. Meanwhile, it continues to report a loss on the bottom-line front. A return to profitable growth and consistent reduction in debt could give a significant lift to Air Canada stock.

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