



Air Canada (TSX:AC) Went Bankrupt in 2003: Could It Happen Again?

Description

Canada's flag carrier is waking to the same nightmare that befell on the company about 17 years ago. **Air Canada** ([TSX:AC](#))(TSX:AC.B) filed for bankruptcy protection in 2003. With the coronavirus outbreak, the vaunted airline company is once more teetering on the [edge of bankruptcy](#). Could it happen again?

A repeat of a nightmare

In the summer of 2003, Air Canada slashed capacity, grounded 40 aircraft, and canceled numerous routes. The threat of a global pandemic was looming. Fewer people were booking flights due to the Severe Acute Respiratory Syndrome (SARS). Air Canada was losing \$5 million a day.

The highly contagious and potentially fatal disease was prevalent in the Asian region. Air Canada's routes in Asia went down by 60%, while business through Toronto suffered a 25% drop. In April of the same year, operating loss reached \$152 million. The coronavirus is reminiscent of the SARS outbreak, and the nightmare is repeating.

The first known case of SARS was in mid-November 2002, and the epidemic was declared contained by the World Health Organization (WHO) in July 2003. SARS affected 26 countries with total cases numbering 8,000. Notably, even during its height, the risk of SARS transmission to travelers was low.

New pandemic

Today, another global pandemic by the name of coronavirus or COVID-19 is threatening to bring Air Canada down on its knees. Unlike SARS, the novel coronavirus is spreading in all seven continents of the world. As of this writing, the number of confirmed cases is almost 863,000.

A recent report by the Centre for Aviation (CAPA) is frightening. The market intelligence agency for the aviation and travel industry is saying that by the end of May 2020, most airlines in the world will be bankrupt. Thus, Air Canada would practically be in quarantine inside the hangar long after the COVID-

19 curve is flattened.

Restructuring

Air Canada emerged from bankruptcy protection 18 months after April 1, 2003. The company went through a court-approved restructuring program. ACE Aviation Holdings became the new parent company and was listed on the TSX as AC.B.

Stockholders in the old company got nothing, and were given a prior warning by Air Canada that the old shares will be worthless as a result of the restructuring.

Air Canada was a high flyer in 2019 and one of the best-performing stocks in the past decade. At the beginning of 2009, the stock price was \$1.88. By year-end 2019, it was trading at \$48.51 or a whopping 2,480% increase. As of this writing, the share price is \$15.75, and the year-to-date loss is 67.5%.

A bailout is next?

The dire diagnosis for the airline industry might lead to a significant bailout to offset the COVID-19 effects and save Air Canada. The government is not yet moving, but it won't allow its flag carrier to go bankrupt. However, it would be at the expense of taxpayers.

Air Canada is badly needs a [lifeline](#). You might see the stock hit the ground in a year or less. Investors can buy from the rubble and hope for a successful rebuilding like what happened in 2004.

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