Could Air Canada (TSX:AC) Stock Go to $0?

Description

Air Canada (TSX:AC)(TSX.AC.B) has taken a serious beating in the COVID-19 market crash. Having fallen 63.4% year to date as of this writing, it's been one of the **TSX**'s biggest losers. It's not hard to see why. As a passenger airline, Air Canada can't make money if people aren't flying.

With 90% of its flights cancelled, its revenue is almost certainly way down. The airline does appear to be making up some of the difference with more cargo flights, however.

Revenue therefore won't likely decline as much as passenger volume would indicate. Still, this is a company whose main operations are virtually shut down. Overall, the situation isn't pretty.

And it could get much worse. As I wrote in a recent article, Air Canada has massive interest expenses and relatively little cash on hand. If the COVID-19 travel cancellations go on longer than expected, the company could be looking at its second bankruptcy in 20 years.

Already we're hearing reports that Air Canada passengers were refused refunds because the company didn't have the money to pay them. If these reports are true, the company's financial future could be in jeopardy. In that case, the stock could become worthless–or darn close to it, as we saw in 2009.

How a stock can "go to zero"

Before going any further, it's important to note that TSX listed stocks *can't* technically go to zero.

The TSX has certain listing requirements for industrial companies. One of those is a $50 million market cap and at least $4 million in shares held by the public. Those standards can't be met with a $0 share price. So a company would be de-listed before it ever *literally* went to zero.

However, there are certain things that can lead to the same consequences for shareholders — one of those is a bankruptcy whereby the company has no money left over after paying off bondholders.

When that happens, shareholders have no claim left on any residual value. A company in this situation will likely be de-listed. So shareholders can be left with worthless shares that can't be sold in public markets.

That's the same financial impact as holding shares worth zero dollars. This isn't theoretical either: it actually happened with Nortel Networks after its bankruptcy proceedings. With the company stripped of its assets, it was delisted from the TSX at $0.185 per share at writing.

Could it happen to Air Canada?

Having established that stocks can become functionally worthless — and that this has happened in the past, we can move on to the big question:

Could AC suffer this fate?

Based on the company's high level of debt and virtual shut down, it certainly looks possible. AC can't make its $500 million annual interest payments without bringing in money. The only option would be to sell off assets, which would leave it without resources needed to get back online in the recovery.

AC did have about $6 billion in cash and equivalents as of its latest balance sheet, but I doubt that will last through this crisis. As reported earlier, there are too many signs that the company is running low on cash.

That said, if Air Canada did face an existential threat, I suspect the government would ultimately step in to bail it out. As an indispensable service, the government would give it an aid package rather than let it die. This actually happened in 2009, and I suspect it would happen again today in a worst-case scenario.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Investing

Date

2025/08/18
Date Created
2020/04/09
Author
andrewbutton