



Is Bankruptcy Next for Air Canada (TSX:AC)?

Description

Demand shocks are nothing new to [the world's top airline companies](#). However, the magnitude of COVID-19's impact on the travel industry will leave deep scars for decades to come. **Air Canada** ([TSX:AC](#)), for example, is struggling to stay alive and [reliving the nightmare](#) of 2003.

The company might seek court protection under Canada's Companies' Creditors Arrangement Act. The said act is similar to Chapter 11 bankruptcy in the United States. On April 1, 2003, the country's flag carrier filed for emergency bankruptcy protection.

Uneventful recourse

The war in Iraq was the principal reason why panicky passengers cut back on travel trips in 2003. Air Canada was losing nearly \$2 million daily as a result. American counterpart **United Airlines** filed for Chapter 11.

Air Canada made the move to get a reprieve from creditors and buy time to reorganize the business. The company also negotiated with the union and government. Unlike today, flights were not banned, although the number of flights has been reduced.

In the past decade, Air Canada has experienced four consecutive years of losses. The most dominant airline company in Canada reported a total loss of \$428 million in year-end 2002. Its accumulated losses in 2008 were more than \$1 billion, and the stock price tanked to \$0.78 in 2009.

Decade's winner

The period from 2010 to 2019 was a decade of transformation for Air Canada. Its comeback from the ground up was the decade's greatest story. Its evolution was a marvel in the global aviation industry. After overcoming inevitable difficulties, the stock came out a winner at the decade's end.

Air Canada's total return for the period was 2,085.14%. The feat is now in the investment record books.

Had you invested \$50,000 then, your money would have grown to \$1,092,570 on year-end 2019. But with the coronavirus outbreak, earning the same shipload of cash is next to impossible.

Deadly outbreak

The outlook for the airline industry is getting gloomier every day. A further spread of COVID-19 will reduce global industry revenues in 2020 by 55% (US\$314 billion) versus the 2019 figures. The scale of the crisis will also translate to about 25 million aviation-related job losses worldwide.

Based on data from the International Air Transport Association, the novel coronavirus has cost the industry a 95% loss in international passenger traffic. The U.S. government will be pumping in US\$25 billion to bail out the beleaguered airline companies.

Not an air pocket

The latest news from Air Canada is that the company is plotting a relaunch after these turbulent times. However, the effect of COVID-19 isn't a simple air pocket. The business disruption is so massive that it would take a federal bailout for Air Canada to flap its wings again.

For now, Air Canada will be applying for the Canada Emergency Wage Subsidy program to retain or bring back affected employees. As an investment option, Air Canada is a risky proposition.

Air Canada is looking at bankruptcy. The company is beginning to realize the 2020 pandemic is more terrifying than the nightmare of 2003.

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