



Air Canada (TSX:AC): 3 Reasons It Will Go Bankrupt

Description

“The higher you fly, the harder you fall.” Though in the case of **Air Canada** ([TSX:AC](#)), it's not hubris that brought it down from its position as a high-flying growth stock, it's the global pandemic. Air Canada has fallen, and it's not the only one.

Airlines across the globe have been shutting down operations, but it's still not enough to survive with no operational income coming in and long-term and short-term debts eating into their reserve funds and assets.

Virgin Australia, the country's second-largest airline, has already filed for bankruptcy. It's one of the first major airliners to do so, and according to an estimate, most major airlines may go bankrupt by the end of May, if air travel continues to suffer like this.

The question is, will Air Canada be one of those? Three reasons why Canada's premier airline may go bankrupt are:

A falling sector

No matter how good a company is, it's nearly impossible to break away from the gravity of its whole falling sector. When Air Canada restructured, it emerged as an efficient and fast-growing company. Its stock was among the best growth stocks for the past five years, trading on the **TSX**.

The airline sector is falling. Currently, the reason is COVID-19 spread, and the fear it has instilled in people. But when that is over, an economic crisis and possibly a recession is waiting in the wings.

During a recession, one of the first things that companies cut costs on is travel. People postpone vacations, and only travel when absolutely necessary.

So for the airline sector, the pandemic to recession shift will not be a healthy change. So if normal operations are the only lifeline for Air Canada, against drowning in bankruptcy, it's a very thin one.

Thin bailout prospects

A government bailout is perhaps Air Canada's best shot against bankruptcy, but how and when the bailout would come, is yet to be seen. While many agree that a federal bailout will prevent the stock from hitting \$0, the terms of the deal might not be so favourable for the company, or for other investors. A bailout could come with severe dilution.

While people hoped [Warren Buffett](#), who is famous for buying businesses when they are caught in the rut, might bail the airline out, his recent sell-off of U.S. airlines have put these hopes on hold.

Without a timely bailout, Air Canada can go bankrupt.

Limited freight operation

While air travel is on ice, freight transportation is still busy as ever. Cargo airlines haven't suffered alongside the airline sector. In fact, many airlines are trying to temporarily convert their passenger planes into cargo planes to stay afloat. Air Canada itself turned three of its Boeing 777-300ER into cargo jets by removing the passenger seats from the cabins.

This lack of a sizeable freight operation, while not solely primary factor, can be one of the reasons why Air Canada might head for bankruptcy. If it had a decent cargo operation, it would have helped Air Canada stay afloat and keep generating at least enough income to stay ahead of its debt.

Foolish takeaway

Many are starting to wonder whether Air Canada really is too big to fail. [The optimism](#) that the Canadian government will not let its flagship airline go into bankruptcy is evaporating.

It's still soon to say with any certainty that Air Canada *will* go to bankruptcy. But the chances that it *can* go to bankruptcy are increasing faster than ever.

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