



Airline Market Crash: Could Air Canada (TSX:AC) Get Wiped Out in 2020?

Description

The COVID-19 outbreak is so damning to the airline industry. Canada's flag carrier, **Air Canada** ([TSX:AC](#)) is on the verge of [bankruptcy 2.0](#) if no federal government support comes soon. The company is on flight lockdown and travel restrictions are likely to be in place for an indefinite period.

Major airline companies are experiencing their [worst economic disasters](#) since the September 11 attacks nearly 19 years ago. There's almost zero demand for passenger air travel due to the coronavirus pandemic. Air Canada's operations are limited to ferrying essential cargo to keep supply chains moving.

But cargo service is not Air Canada's core business or growth driver. Unless the travel ban is lifted and passengers return, the company is flirting with getting wiped out in 2020.

Lost world

The airline and travel business is in a lost world. It could make it extremely difficult for Air Canada to duplicate its amazing comeback in the past decade. The industry will never look the same once COVID-19 is contained and lockdowns are lifted.

Market analysts are already predicting an eerie situation. Revenues of airline companies like Air Canada are directly linked or proportional to passenger traffic. Many businesses operating within the industry will likewise suffer. The entire aviation value chain is under threat.

Outbreaks of communicable diseases are nothing new to the airline industry. But COVID-19 is deadlier than the SARS scare in 2002–03. Social distancing did not come into play then, unlike today. Also, only 26 countries were affected by the virus then.

Dire financial need

Air Canada was the toast of the town when 2019 ended. This airline stock gained 88.2% last year. In

the past decade, the total return was 2,085.14%. But history repeating itself is out of the question. The turnaround of Canada's most dominant airline company hinges on a federal government bailout.

About 50% of Air Canada's total workforce was laid off before the government introduced the Canada Emergency Wage Subsidy (CEWS). The company will apply to the program and use it to help its employees. That includes the rehiring of the 16,500 workers that were previously laid off.

The CEWS is a welcome development because Air Canada's 36,000 employees will remain on the payroll. Aside from earning more money than from employment insurance (EI), employees can maintain their health insurance and other benefits as well. However, the company is still without wings even with the CEWS. It needs more to fly again.

National catastrophe

Canada's airline industry is rapidly deteriorating. The National Airlines Council of Canada (NACC) is wishing the government could act sooner than later. If Air Canada goes down, the air transport and tourism sectors might go down with it.

Over the last decade, Air Canada grew both domestic and international volumes while keeping costs in check. Last year, it posted income growth of 738.8%. In 2020, the company is facing a cash crunch of epic proportions.

Time is of the essence as the sky is falling on Air Canada. Further delay in federal support could wipe one of the world's largest airlines.

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