



Boeing CEO Predicts a Major Airline Will Go Bust This Year: Is Air Canada Safe?

Description

One industry that just about everyone's bearish on these days is the airline industry — it's hard *not* to be with the COVID-19 pandemic keeping people at home and airlines having to shut down all or a significant part of their operations.

Even the industry's own insiders aren't optimistic about the future. When **Air Canada** ([TSX:AC](#)) released its quarterly results earlier this month, the airline said it could take three years for it to return to its 2019 levels in terms of traffic levels and earnings.

But **Boeing** CEO Dave Calhoun has an even darker outlook for the industry, telling NBC in an interview that a major U.S. carrier is likely to go out of business this year, saying, "Something will happen when September comes around." He didn't allude to a specific airline in general, as it was directed toward the industry in general.

A big part of the reason that he's pessimistic is that Calhoun sees significant cuts for the majority of the year, "Traffic levels will not be back to 100 per cent. They won't even be back to 25 per cent. Maybe by the end of the year we approach 50 per cent."

Can Air Canada survive?

Although Calhoun specified a U.S. carrier, Canadian airlines are facing the same risks. With no travellers and significant overhead, there will need to be some significant cost-cutting measures put in place. As of June 7, the airline says that about 20,000 of its employees will be laid off.

In addition, the company's CEO and CFOs will forego their salaries, and other executives will also take pay cuts. Air Canada is also able to tap into lines of credit to help inject it with additional cash flow as well.

As of March 31, the Quebec-based business reported \$6.1 billion worth of cash and short-term investments that can help the company stay afloat. Whether all that's enough to get through the pandemic is anyone's guess.

During the most recent quarter, Air Canada burned through \$20 million in its operating activities. In the prior-year period, Air Canada generated more than \$3.1 billion from its operations.

Investors will get a better idea in the company's next quarterly results to see how bad its cash burn is — this period only rose until March 31. The next earnings report will likely see a lot more cash burn.

But with billions in cash on its books and the government providing wage subsidies, there's no reason to panic just yet. And if air travel begins to resume later in the year, then the airlines may need to weather two really bad quarters before things start to get a bit better.

Is the stock worth taking a chance on?

Air Canada stock is a contrarian buy at its finest. It's a stock that could soar in a few years once the [pandemic](#) is fully over with. But it's not a stock to invest in with your [retirement](#) funds.

If you're looking for a long-term hold, and have a lot of patience, this could be a good stock to buy and hold.

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