



Air Canada (TSX:AC): Slow Recovery or Another Fall?

Description

Air Canada ([TSX:AC](#)) will see a slower recovery, but as of yet, most people are sure that the airline *will* recover. In the quarterly report, the company admitted that it might take it about three years to regain its pre-crash altitude. The company has taken forceful measures to stay afloat, which includes laying off half the staff.

Another step the company has taken to raise capital is to issue more shares and convertible senior-notes; it expects to raise about \$1 billion in cash this way. This much liquidity will help it fight through the currently slashed operations.

According to an estimate, the company is bleeding out \$22 million a day. The situation is likely improving as more flights are taking off, but the company still needs a huge cash pile to keep operating in this situation.

International summer flights

Air Canada is testing the waters (and in its case, the winds) for its summer operations. The company has released its travel plan for the summer. The number of destinations it will be offering flights to has been cut down in half. Air Canada will only take its passengers to 97 international destinations compared to 220 it offered last year.

Due to the pandemic, Air Canada was only flying at about 7% of its capacity. Even if the company sees a packed summer, it will still not be functioning at 100% of its capacity for quite some time. It expects to increase its capacity by 25% by the end of this year, and that's the best-case scenario the airline is hoping for.

The share of Air Canada in the total international flights to and from the country is massive — a situation that's only bound to improve in Air Canada's favour once luxury carrier Transat AT's acquisition completes in July. This will ensure Air Canada's dominance over international travel and very limited competition.

This acquisition has also attracted the ire of European regulators, who are concerned that this acquisition will result in higher fares for passengers.

Air Canada's situation

When people start travelling to and from Canada, whether for business or pleasure, Air Canada will get the biggest piece of the pie. The domestic flights, even at full capacity, are not enough to stop the airline's bleeding. The faster international travel resumes to normal levels, the better.

Another step the company took to preserving its cash is its refund policy. The company has launched a new COVID-19 refund policy that includes no-expiration-date vouchers, or converting the value of existing tickets into Air Canada's loyalty program, with a hefty bonus incentive.

Foolish takeaway

At the outset, the prospects look good — at least as good as they can be after such massive losses to the sector. However, investors seeking Air Canada for a fast recovery and rapid capital growth might want to adopt a [realistic perspective](#). Even if the airline recovers, they will still be in for the long haul.

On the flip side, if another wave of the pandemic hits, rekindling the fear among the travellers, or the airline has to accept a [bailout](#) from the government on unfavourable terms, the recovery to its former valuation may take significantly longer than the three years the company has predicted.

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Date

2025/09/15

Date Created

2020/05/30

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