



\$1.4 Billion Air Canada (TSX:AC) Financing: Will it Save the Company?

Description

The problem of **Air Canada** ([TSX:AC](#)) is funding on a grand scale. No federal government bailout is coming, so the only recourse is to seek help elsewhere. It needs more than \$1 billion to offset the same amount of losses in the first quarter of 2020.

It appears the airline company still has [credibility](#), despite the credit rating downgrade by Moody's Investors Service in May. Air Canada offered shares and debts to raise funds. Suddenly, there is light at the end of the tunnel. The result of the twin moves is \$1.59 billion in fresh funds. But will the financing deal save the company?

Staying power

Air Canada was running out of time, as it was burning \$20 million in cash daily in the second quarter. The timely arrival of the proceeds will not only stop the bleeding but boost the airline's liquidity position to nearly \$9.7 billion.

According to some market analysts, Air Canada now has staying power and can roll with the punches. When news of the deal broke out on June 2, 2020, the share price was \$16.69. At the end of the week, the stock has gone up by 21.5% to \$20.29. The [market response](#) was very positive.

Moving to the post-pandemic era

Calin Rovinescu, Air Canada's CEO, laments the lost momentum going into 2020. The airline stock was trading at a flat \$50 at the start of the year. When COVID-19 struck, the price bottomed out to \$12.90. The market cap is also down, shrinking from \$13.83 billion in early January to \$6 billion as of June 5, 2020.

Still, Rovinescu welcomes the new lease on life. The company's CFO, Michael Rousseau, said that Air Canada could better manage debt leverage and risk with the financing proceeds. However, recovery will be arduous, painful, and slow. If ever break-even cash flow returns, it will be no earlier than 2022.

Right-sizing

Air Canada today is just a shadow of its previous stature. Border closures and travel bans reduced its capacity by over 90%. The airline is doing all-cargo international flights since March.

The immediate goal is to right-size the company by aligning operations with the depressed passenger travel demand. About 207 aircraft are idle and inactive. Air Canada is also retiring about 79 of its older planes.

Aside from downsizing capacity, the airline is drastically reducing capital expenditures, deferring projects, and implementing voluntary unpaid leave programs for employees.

I'm not sure if the deal to acquire **Transat AT** will push through. The transaction will cost \$700 million, although the value of the tour operator at present is far lower. The acquisition is perfect for Air Canada, but not when the aviation industry is in crisis. It needs to preserve cash to ride out the slump.

Bleak picture

Large global operators, including Air Canada, know that the foreseeable future is bleak. Give it three years for the revenue and capacity of this prestigious airline to return to 2019 levels.

Air Canada has been through tightrope moments before. But the line it is crossing in 2020 is the most challenging. The \$1.6 billion will save the company from collapse, but it will take years to achieve profitability.

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