No CERB for Former Air Canada (TSX:AC) Employees

Description

Air Canada (TSX:AC) is burning $20 million cash every day just to stay operational, as 90% of its capacity stays grounded. With every passing day, this cash burn is becoming more burdensome, as its pockets grow lighter. The airline has no other option but to take some gruesome steps to survive in the absence of a government bailout. Last week, Canada's largest airlines halved its workforce by slashing 20,000 jobs. Some of these employees lost not only their jobs but also their Canada Emergency Response Benefit (CERB) benefits.

The first phase of the Canada Emergency Wage Subsidy (CEWS) ended on June 6. Under the subsidy, the government offered to pay 75% of the wages if the company retained its workforce. The remaining 25% of the salaries were paid for by the company. Even though the government extended the CEWS to August 29, AC did not continue with the subsidy. The company doesn't see any near- to mid-term recovery in its operations. Hence, it is futile to maintain a workforce needed to run a pre-pandemic-level operation.

Are Air Canada employees who are laid off eligible for CERB?

Adjusting its operations to the new normal, AC gave its employees the option to either take voluntary unpaid leaves for six to 24 months, reduced work hours, or resign. Canadian Union of Public Employees (CUPE) revealed that employees who took these options would not get CERB payment. This is because to be eligible for the CERB benefit of up to $2,000 per month, applicants should have "not quit their job voluntarily."

AC employees could either quit voluntarily and give up CERB or get fired and claim their CERB. Unlike **Bombardier**, which is slashing jobs but giving its CEO millions in severance pay, AC executives are taking a pay cut. Its CEO and CFO are forgoing their entire salary, while other senior executives are taking a 25-50% pay cut during the pandemic.

The above job cuts were important fro AC to perform fiduciary duties towards its shareholders, which is to generate profits and maintain financial stability. In the current pandemic environment, air travel has plunged to levels never seen before. The only way to survive is to resize its operations as per the demand. Hence, it is retiring 79 older aircraft and cutting its workforce to reduce its annual cost by more than $1 billion.

Air Canada will fight until its last breath

AC is doing everything to stay afloat. In the first quarter, it reported a net loss of $1 billion, which reduced its liquidity to $6.5 billion from $7.4 billion in the previous quarter. The company is burning $20 million in cash daily, which could result in a net loss of $1.8 billion in the second quarter. At this rate, it will deplete its liquidity by the end of the year. Hence, it has raised $1.6 billion in capital through stocks and debt to enhance its liquidity. It has also kept the option to secure funding against its $2.6 billion of unencumbered aircraft.

AC sees an increase in domestic travel, but this won't stop cash burning. The real money comes from long-haul international flights. The airline is urging Prime Minister Justin Trudeau to relax travel restrictions to boost international travel. Once the international borders open and travel restrictions ease, AC plans to recall its employees.

Airlines are not out of troubled winds

All the above efforts will only help AC if its planes fly again this fall. But these efforts would vanish if a second wave of the pandemic reappears in the fall. AC will not be back to where it started. But it would be six feet under with little liquidity and massive debt. Its stock has the potential for a V-shape recovery. But the risk of the second wave of pandemic makes investing in this stock a gamble.

CATEGORY

1. Coronavirus
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Investing

Tags

1. Editor's Choice

Date
2025/08/25
Date Created
2020/06/18
Author
pujatayal