



If Air Canada (TSX:AC) Goes Down, This Stock Will Pay the Price

Description

The airline industry has been a nightmare for investors during this market crash. And while **Air Canada** ([TSX:AC](#)) might be a once-in-a-decade investment for many investors if it goes up again (especially for ones that bought it at its low valuations), more people are waiting for it to go under. Despite the company raising a lot of cash and diluting its share to stay afloat, the fear of bankruptcy is still alive.

Air Canada isn't alone in this. It's a global issue, and almost every airline around the globe has suffered because of the pandemic. But if Air Canada goes under, it won't sink alone. And one of the companies it's expected to tug down the most is **Chorus Aviation** ([TSX:CHR](#)).

Air Canada and Chorus Aviation

Chorus Aviation has two major subsidiaries: Jazz Aviation and Voyageur Airways, with fleets of 110 and 14, respectively. Out of the two subsidiaries, Jazz Aviation, which is the third-largest airline in the country by fleet size, flies completely under the flag of Air Canada. It has long-term contracts with Air Canada that are valid till 2035.

Since Air Canada has slashed its total capacity for both international and regional flights, it has affected Chorus Aviation as well. Chorus's dependency on Air Canada means that if the premier airline goes down, Chorus will inevitably pay a very high price. Following the bankruptcy restructuring, Chorus's contracts might be renegotiated, and new terms might not be so favourable for the company.

Thanks to its leasing business, Chorus's assets might be safe, even if Air Canada goes under, but these assets might not be generating revenue for the company. And since more and more airlines around the globe are grounding their aircraft and slashing their [operational capacity](#), it might be hard for Chorus to lease its aircraft to a company outside Canada, even if casts a very wide net.

Chorus stock

Even though Chorus never mimicked Air Canada in its glory days of growth, the stock followed Air Canada in the fall. It's trading at \$3.5 per share, which is 56.5% down from its start-of-the-year value. The company has also suspended dividend payments for the foreseeable future.

In the last quarter's result, the company reported a net loss of \$17.3 million. The return on equity was also dropped from 25.7% to 14.2%. Unlike Air Canada, the operating income of Chorus actually grew by 16.4% compared to the last quarter. The next quarter's results might offer more insight into the havoc this pandemic wrought for the company.

Foolish takeaway

Air Canada is unlikely to [go under now](#), but there is still a hanging fear of a second wave of the pandemic, which can topple the resemblance of normality that the world has gained in the past few weeks. If worse comes to worst, and Air Canada goes under, Chorus investors might also see their portfolios weaken.

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1. Coronavirus
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