



Uh-Oh! Another Air Canada (TSX:AC) Refund Controversy Just Erupted!

Description

Last month, **Air Canada** ([TSX:AC](#)) announced that it would be cancelling 30 routes, citing lower customer demand. Many of the routes cancelled were in the Atlantic region, which has no big cities and many smaller markets. The move was consistent with what has been observed in other countries. The U.S. airline **Delta Airlines** recently scrapped 12 routes to smaller American cities, because the passenger volume was too low to keep the flights going.

It's understandable that Air Canada would cancel many of its smaller routes. The company is bleeding cash and desperately in need of money. However, in the midst of Air Canada's route cancellations, a story emerged that paints a bleak picture of Air Canada's finances.

Passengers on cancelled flights are struggling to get refunds

On July 7, the *CBC* reported on Air Canada customers who struggled to get refunds after their flights were cancelled. The story focused on one man whose flight from St. John's to Labrador was cancelled; he was offered a voucher instead of a refund. The problem, he said, was that he had no use for travel credit, since he needed to fly on the specific route on the date in question. With that option no longer available to him, the voucher was of no use to him.

This is nothing new. On March 22, Air Canada announced that it would be offering travel vouchers instead of refunds to passengers on cancelled flights in a specific date range. Later, in June, the company [began offering refunds](#) to some customers in some circumstances. Although the *CBC* story in question did not say Air Canada outright refused to grant refunds, the fact that customers are struggling to get them is a bad sign.

Why that's a big deal

Air Canada's continued refund problems suggest that the company still has cash flow issues. This is relevant to not only passengers, but also investors, because it shows that the company is struggling financially.

Prior to Air Canada's March 22nd announcement, the company had been giving refunds to passengers affected by COVID-19. The shift to vouchers was abrupt and not in keeping with previous practices. In an article on the topic, *Vice* reported that customers who were refused refunds were told that the company just didn't have the money to issue them.

In May, we may have received confirmation of that fact. That month, the company released its earnings for the first quarter. The headline metric from the report was a \$1.05 billion net loss. That was a big deal in itself, but another metric was arguably worse: a \$20 million net cash outflow from operations. That, combined with the company's [\\$1.6 billion financing package](#) and difficulty coming up with money for refunds, suggests some serious cash flow problems.

Overall, now is probably not a great time to be an Air Canada shareholder.

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