



In 2003 Air Canada (TSX:AC) Went Bankrupt: Will History Repeat Itself?

Description

Is history repeating itself in the case of **Air Canada** ([TSX:AC](#))? Canada's most dominant carrier appears to be heading in the same direction as in 2003. About 27 years ago, the company was on the verge of bankruptcy.

The nightmare is back in 2020, although under the circumstances are different. Air Canada's future is again in peril, and the company [might not survive](#) the lethal impact of COVID-19 on the air travel business.

Unfortunate events

On April 1, 2003, Air Canada filed for bankruptcy protection under the *Company's Creditors Arrangement Act*. The company cited the economic slowdown, terrorism threats, higher fuel costs, and labor disputes as the reasons. Other reasons that made recovery difficult were the Iraq War and the SARS outbreak.

At the start of 2003, Air Canada was cash-strapped already following its US\$295 million losses in 2002. The company was heavily indebted to the tune of \$13 billion, while cash reserves were depleting. Similarly, competition from smaller airlines and negotiations with labour unions were simultaneously occurring.

The **Toronto Stock Exchange** (TSX) had to halt trading of Air Canada shares. Those were the series of unfortunate events that led to the airline company's demise in 2003. Management did not seek federal assistance as it obtained \$700 million in bridge financing in the U.S.

Great comeback

Air Canada successfully emerged from bankruptcy protection on September 30, 2004, after 18 months of restructuring. The process involves a reduction in cost structures and strengthening of the balance sheet. Also, Air Canada was able to save \$1 billion in labour costs after the unions ratified new labour

agreements. Problem solved.

People forgot the 2003 episode was because redemption came in 2010 to 2019 decade. Air Canada was the 4th top-performer on the TSX for the 10 next years, with a total return of 3,575%. In 2019, the airline stock was among the cream of the crop. Investors were ecstatic with the 86.86% return.

Global pandemic

Things are [falling apart](#) again for Air Canada in 2020. This time, only one unfortunate event is the cause. COVID-19 brought turmoil to the aviation industry that many airline companies are collapsing. Canada's flag carrier is no exception. Travel demand is gone, and if ever it returns, travel will never be the same.

Air Canada lost \$1 billion in the first quarter of 2020, but secured \$5.5 billion worth of financing deals since March 13, 2020. The company can raise more if need be because it can offer unencumbered assets as collateral. Despite the fresh funds, near-term to mid-term recovery prospects are dim.

Air Canada CEO Calin Rovinescu admits it's going to be a long journey to recovery, and could take three years for the business to return to pre-corona levels. Winnipeg Airports Authority, however, predicts recovery could take three to five years.

Deciding factor

Airline companies are capital intensive with higher fixed costs. Even if Air Canada resumes operations, it won't be at full capacity. The company will report its second-quarter earnings results on July 31, 2020. Perhaps investors can assess better if history will repeat itself.

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