



Air Canada (TSX:AC) Went Bankrupt in 2003: Will It Happen Again?

Description

Is **Air Canada** ([TSX:AC](#)) shutting down, if not going bankrupt soon? Canada's dominant carrier filed for bankruptcy protection in 2003, citing the [global aviation crisis](#) due to a travel slump, SARS outbreak and the Iraq War. The nightmare of the past is back, although the trigger is much worse.

Air Canada was the first among global carriers to wither and succumb to bankruptcy then. Several major airlines followed as the industry faces the biggest crisis in the modern jet age. Fortunately, a court-approved restricting program helped the embattled airline to emerge from bankruptcy protection 18 months later.

The COVID-19 episode is vastly different because the impact is on a host of industries. However, the airline industry is most impacted. Governments had to close borders and implement travel restrictions to prevent the spread of the deadly virus. Can Air Canada make another comeback as it did 16 years ago?

The federal government has been rolling border closures or travel bans on a month-by-basis since June 30, 2020. For most of the period, Air Canada was pleading to ease travel restrictions and relax quarantine requirements. The company needs to operate and arrest severe [financial damage](#) in the first half of 2020.

Financial damage

The net losses were \$1.05 billion and \$1.75 billion in Q1 2020 and Q2 2020. Before the massive earning setbacks, Air Canada enjoyed 27 consecutive quarters of revenue growth. In 2019, the airline stock was the toast of the **TSX**. The total return was 87%. Thus far, in 2020, investors are losing by 67.76%.

From \$50 per share on January 2, 2020, the stock price is \$15.64 as of October 2, 2020. The passenger capacity metrics are at an all-time low that Air Canada needs to make up for lost ground. It's heavily reliant on international flights to generate revenues.

Passenger safety

Canada had great success in flattening the curve from May to August 2020. However, cases are spiking again lately. In early September, Air Canada launched a voluntary COVID-19 testing program for arriving passengers in Toronto. It aims to convince the government that testing can be an alternative to quarantine.

The airline company is employing all means to ensure passenger safety. According to Air Canada Chief Medical Officer Dr. Jim Chung, the company could change the government's position. It can relax current blanket travel restrictions and quarantines in a measured way without sacrificing public health and safety.

Aviation sector in bad shape

Major Canadian labour unions in Canada warns of permanent damage to the aviation sector if the federal government doesn't provide a \$7 billion, 10-year low-interest loan to offset the COVID-19 pandemic's effects. The unions also said Canada is the only leading developed nation that's not implementing concrete measures to help the travel and tourism sector.

The office of Federal Transport Minister Marc Garneau is saying Ottawa is actively working to put forward solutions. However, travel ban extensions could further deplete Air Canada's cash reserves and push it into the edge of bankruptcy. Meanwhile, the approaching Halloween could be the creepiest for Air Canada and its investors.

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