



Can Air Canada (TSX:AC) and the Air Travel Industry Survive the Pandemic?

Description

The International Air Transport Association (IATA) [has lowered its global outlook](#) for the airline sector in 2020 saying that air traffic for the year will be down by 66% compared to 2019. Earlier, it expected air traffic to decline by 63% in 2020. IATA said international traffic in August was down 92.4% in North America compared to 94.4% in July.

No flying, just crawling

Alexandre de Juniac, IATA's Director General and CEO, said, "Traditionally, cash generated during the busy summer season in the Northern Hemisphere provides airlines with a cushion during the lean autumn and winter seasons. This year, airlines have no such protection."

He added, "Absent additional government relief measures and a reopening of borders, hundreds of thousands of airline jobs will disappear... We need an internationally agreed regime of pre-departure COVID-19 testing to give governments the confidence to reopen borders, and passengers the confidence to travel by air again."

IATA asked the Canadian government to consider alternatives when it comes to the quarantine rules for international and domestic travel. **Air Canada** ([TSX:AC](#)) and **Westjet** have also proposed alternative measures that will help them test faster.

On October 6, Air Canada announced that it sponsored a McMaster HealthLabs study that tested over 15,000 international passengers arriving at Toronto's Pearson airport for COVID-19. It claims that over 99% of the participants tested negative and believes the test-based strategy to be a suitable alternative to the mandatory 14-day quarantine that is unfeasible.

This drastically cuts down the quarantine period for passengers. Such rapid testing measures can enable governments to relax blanket restrictions and help quarantine people in a measured way. Under current laws, all passengers arriving from outside Canada must submit a self-isolation plan, and returning passengers must show that they have a support system in place to self-isolate for 14 days.

Air Canada's deal with Transat

Leisure travel in Canada has been severely hit — so much so that [Air Canada lowered its price](#) to buy tour operator **Transat AT** by 75%. In 2019, shareholders of Transat had approved a deal of \$18 per share for its business by Air Canada. On October 10, 2020, Air Canada said it will acquire all shares of Transat for \$5 a share. The company says the new deal is based on a reduction of Transat's business thanks to the impact of the COVID-19 pandemic.

"COVID19 has had a devastating effect on the global airline industry, with a material impact on the value of airlines and aviation assets. Nonetheless, Air Canada intends to complete its acquisition of Transat, at a reduced price and on modified terms," said Air Canada CEO Calin Rovinescu.

Air Canada has pulled out all stops to survive the pandemic. It has raised almost \$6 billion in liquidity since the start of the pandemic in the first quarter of 2020. It recently completed a couple of long-term financing options to fund repayment of \$1.4 billion of short-term debt due in nine months.

On October 8, the airlines announced that it completed the sale of nine **Boeing** 737 MAX 8 aircraft to Jackson Square Aviation and Avolon Aerospace Leasing Limited, raising \$485 million.

The Foolish takeaway

While Air Canada might seem like a good contrarian buy given its massive decline in 2020, as the recovery in airline stocks will be delayed by at least two years, the road ahead is likely to be rocky and volatile.

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