

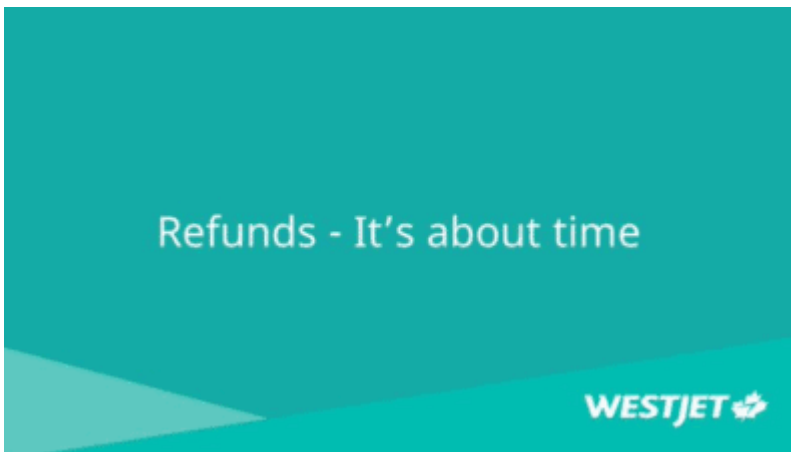


Air Canada (TSX:AC) BLASTS WestJet Over Refunds: Twitter Spat Ensues!

Description

Air Canada ([TSX:AC](#)) took issue with a **Twitter** post by WestJet yesterday, leading to a public spat between Canada's largest two airlines. It started with a post by WestJet that simply read "refunds—it's about time." Air Canada replied: "Misleading statement! @WestJet is just now catching up to our policy to refund refundable fares. We have already refunded over \$1.2 Billion in refundable fares to date!"

In response, WestJet wrote that its cancellation policy covered all passengers whose flights were cancelled by WestJet. So far this year, both airlines have offered vouchers in place of cash refunds — except in limited circumstances.



Major implications for investors

That Canada's two largest airlines are getting into a Twitter feud is interesting enough as it is. What's more interesting is the implications for investors. Most people following airline stocks this year are aware of the massive financial issues they're experiencing. Between negative earnings, cash bleed, and +90% revenue declines, they're obviously in a tough spot. Now, it appears they have massive PR issues as well. The fact that refunds became the focal point of a social media dispute between the two companies indicates that there's serious public outcry about the issue. That could worsen the airlines'

financial issues, as we'll see shortly.

Refund drama back in the spotlight

Refund problems are nothing new for airlines. The issue first reared its head early in the COVID-19 pandemic, when Air Canada announced that it was force-cancelling flights and offering vouchers instead of refunds. This led to public outcry and the initiation of a [class-action lawsuit](#). Initially, the Canadian Transportation Agency backed Air Canada and other airlines that opted for vouchers. Later, the agency clarified that its opinion was non-binding. Since then, some passengers have managed to get refunds while others haven't. Air Canada did replace its two year non-reusable voucher with a fully re-usable one, but many passengers still haven't received theirs.

A growing problem

If refunds are a growing PR issue for airlines — as they appear to be — then that's a potential problem for Air Canada.

In the second quarter, AC revealed massive financial issues across the board. Revenue was down 89%. Earnings were negative to the tune of \$1.7 billion. Interest expenses alone were [\\$149 million](#), a whopping 28% of the company's \$514 million in revenue. In response to all these issues, the company issued a \$1.6 billion package of debt and equity. This financing was needed just to stay afloat; it wasn't to fuel growth.

If refunds continue to be a major point of contention, then these problems could get worse. In the replies on Air Canada's Twitter post, customers reported still not having received their refunds. That would tend to indicate that, if the company intends to process all COVID-19-related refunds, it will need to pay out much more than the \$1.2 billion already paid. That's going to be a major drain on liquidity. Overall, not a pretty picture for Canada's airline — nor for its stock.

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