



Air Canada (TSX:AC) Is Doomed Without a Vaccine

Description

It's hard not to notice the gains **Air Canada** ([TSX:AC](#)) has been making lately.

Since the bottom in the March stock market crash, Air Canada has risen 100%. If you'd bought on March 23 and sold today, you'd have doubled your money.

But before you get too excited, a word of caution is in order. While Air Canada stock is soaring, its business is in extremely rough shape. Thanks to COVID-19 travel restrictions, its sales have dropped 88% this year. As a result, the company has been losing billions of dollars. Unless an effective vaccine is rolled out *very soon*, Air Canada may be forced to enter bankruptcy protection. In that situation, current shareholders will be doomed.

Air Canada's dire financial situation

Air Canada's financial situation in 2020 is dire. A complete analysis of the company's financials is beyond the scope of this article, but a few highlights include

- A 90% year-over-year revenue decline in the second quarter;
- An [86% revenue decline in the third quarter](#);
- \$3.4 billion in year-to-date losses;
- Over \$1.6 billion in new debt and equity; and
- \$196 million in [third-quarter interest expenses](#).

All of these signs point to one thing: a debt-addled company with huge fixed costs and declining sales. This is a problem, because you can't make fixed costs go away just by cutting routes. Things like interest charges come in whether planes are flying or not. So, unless Air Canada is able to resume normal operations soon, it's basically impossible for it to turn a profit.

Bailouts tied to refunds

Another big problem facing Air Canada right now is the fact that to get a bailout, it will need to start giving refunds to COVID-19-impacted customers. This past spring, Air Canada force-cancelled countless flights that were impacted by the pandemic. It didn't issue refunds. Instead, it offered its customers travel vouchers, which are still being processed to this day.

This creates a problem for the company because, just recently, the Federal Government said it wouldn't give Air Canada any bailout money until it paid all of its outstanding refunds in full. Responding to mass outcry, the government announced that Canadian passengers had to be refunded before any airline could be considered for a bailout.

This puts Air Canada in a Catch-22. If it doesn't pay refunds, it doesn't get a bailout. If it pays refunds, it loses even more cash than it's already losing — the reason it wants a bailout in the first place. It's a lose-lose situation. Ultimately, the company will have to do a comparative analysis to see which option is better. Perhaps it will find that it can pay \$1 billion worth of refunds in exchange for a bailout worth \$2 billion. That would be a net win. But either way, it pays a price — either due to forgoing bailout money, or by getting a bailout only after forking over thousands of refunds.

So, the only truly good option for the company is for that vaccine to come out soon. Absent that, the fourth quarter is gonna be ugly.

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