



## Air Canada (TSX:AC) Stock: Brace Yourself for a Bumpy Ride

### Description

A bailout package may be coming to Canada's airline industry soon. **Air Canada** ([TSX:AC](#)) confirmed that talks with the federal government are ongoing. Thus far, airline companies have received more than \$1.7 billion in financial support through the Canada Emergency Wage Subsidy (CEWS).

The central precondition is that Air Canada and other airlines must commit to refund or repay customers for flights not taken. Union president Jerry Dias said Air Canada has long been amenable to a rebate agreement in exchange for a bailout.

News of a potential federal package [excites investors](#). As of March 5, 2021, the share price is \$26.90, or an 18% year-to-date gain. A year ago (pre-pandemic), it was \$32.16. Many anticipate a breakneck rally by the airline stock, although the ride could still be bumpy. No one knows yet if there's a big catch in the agreement with the government.

### Bleakest year

Last year was [the bleakest in Air Canada's history](#). Total revenues fell significantly by 70%, from \$13.298 billion in 2019 to \$5.8 billion in 2020. The airline reported a \$3.77 billion operating loss compared to the operating income of \$1.650 billion in the previous year.

COVID-19's impact on commercial aviation was catastrophic. All Air Canada stakeholders were deeply affected by the government-imposed travel restrictions and quarantines. Management made several painful decisions, including staff reduction of more than 20,000 bodies (50% of the total workforce).

Air Canada had to cut fixed costs aggressively to reduce the massive cash burn. Debt and equity financings bolstered the company's liquidity position. It also gave them additional operational flexibility and support to implement its COVID-19 Mitigation and Recovery Plan.

Calin Rovinescu, the chief architect of Air Canada's restructuring years ago, was no longer president and CEO effective February 15, 2021. Michael Rousseau, former Deputy Chief Executive and CFO, is now the captain of the ship.

## Federal bailout conditions

All airlines must comply with the attached conditions strictly. The three main requirements are:

- Protect Canadians and the public interest.
- Provide ticket refunds for postponed or cancelled flights due to the global pandemic.
- Ensure Canadians and regional communities retain air connections within Canada.

Air Canada signed a revised Capacity Purchase Agreement (CPA) with **Chorus Aviation**. Richard Steer, Air Canada's Senior Vice President for Operations and Express Carriers, said the realignment of regional services is ongoing. The consolidation should help achieve efficiencies and reduce operating costs and cash burn.

The new CPA would significantly lower operational costs and thereby provide near-term certainty and operational simplicity. Air Canada would save \$430 million in regional capacity expenses over the next 15 years. It will also free the company of \$193 million in contractual capital expenses.

## Competitiveness is doubtful

Canada has extended travel restrictions for travellers from other countries until April 21, 2021. For U.S. travellers, the restrictions last until March 21, 2021. The restrictions at the border are tighter now. Only four Canadian airports accept international flights. Furthermore, major airlines suspended flights to Mexico and the Caribbean.

An incoming traveller must take a COVID-19 test upon arrival and stay in a government-approved hotel while waiting for test results. Given the tighter measures to combat the new COVID variants, competitiveness remains doubtful. It could stifle Air Canada's rally in the stock market.

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