



Air Canada (TSX:AC): How Much Will the Refunds Actually Cost?

Description

Recently, **Air Canada** ([TSX:AC](#)) said that it would give refunds to all of its COVID-impacted passengers in exchange for a bailout. The agreement came after a period of many months in which travelers were unable to get refunds. In March, the company announced that it had to cancel several international flights due to COVID-19 restrictions. Initially, it said that customers would not be given refunds. They were offered travel credit instead. Later, the company eased up on the refund question, but many customers reported delays in getting their refunds processed. The recent bailout announcement may provide hope that they'll soon get their money back.

This situation has relevance for Air Canada's investors. Recently, investors have been buying AC stock, sending it much higher than it was at the end of last year. There's significant bullish sentiment toward this stock. However, a major cash outflow caused by an avalanche of refunds could trigger another massive quarterly loss. In this article, I'll explore the question of how much it will cost Air Canada to refund all of its COVID-19-impacted passengers and whether it will financially damage the company.

Air Canada has a 46% market share in Canada

So far, Air Canada hasn't publicly disclosed how many [COVID-19-related refunds it owes](#). However, we can come up with an estimate based on two facts:

- Air Canada has a 46% market share in Canadian air travel.
- The Canadian Transportation Agency (CTA) had received 11,000 airline refund complaints by the end of last year.

If Air Canada's number of refund complaints was proportional to its market share, then it would have had 5,060 refunds that triggered CTA complaints last year. That's not 5,060 total — just 5,060 refunds that angered customers enough that they felt they had to complain to the CTA.

This is a very rough estimate. There is no guarantee that Air Canada's share of refund complaints is proportionate to its market share. The figure could be lower or higher. However, it is likely to be

somewhat similar, given that all Canadian airlines behaved the same way last year (namely, offering vouchers instead of refunds). The bigger question is how many refunds *didn't* lead to CTA complaints. That, unfortunately, is impossible to even guess at.

Refund cost based on 5,060 refunds owed

If Air Canada had 5,060 refunds owing at the end of last year, then its total cost to pay the money back would depend on how much the average flight cost. Here are the figures you'd end up with based on a few hypothetical costs:

- **\$500:** \$2.53 million.
- **\$1,000:** \$5.06 million.
- **\$1,500:** \$7.59 million.

These aren't enormous sums of money — even if we assume the average flight cost \$1,500. And, in fact, the average flight costs much less than that. According to *StatCan*, the average international long-haul airfare was [just \\$300 in 2019](#). That would tend to suggest that Air Canada will have no problem coming up with the money to issue all of its refunds. Even if the number of refunds it owed was double the 5,060 I estimated, the total cost would likely be under \$10 million.

Foolish takeaway

As of its most recent quarterly report, Air Canada had \$8 billion in unrestricted liquidity. That is, cash plus assets easily converted to cash. In light of this, it's not surprising that the company is willing to issue all of its refunds in exchange for a \$7 billion bailout at low interest. Even if we assume that none of last year's refunds were paid to date, the company will have no trouble paying for all of them this year.

CATEGORY

1. Coronavirus
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media

6. Sharewise
7. Yahoo CA

Category

1. Coronavirus
2. Investing

Tags

1. Editor's Choice

Date

2025/08/25

Date Created

2021/03/23

Author

andrewbutton

default watermark

default watermark