Own Air Canada (TSX:AC) Stock? You Should Know This

Description

Air Canada (TSX:AC), the largest Canadian airline, has seen immensely challenging times in the last year. Its investors might not be able to forget how the stock lost 68% of its value in the first quarter last year. As the COVID-19-related shutdowns and travel restrictions badly hurt its overall financials, the company's top management apparently continued to enjoy bonuses.

This news might be surprising for many investors who have been holding Air Canada stock for years. Such investors chose to hold the stock despite knowing the immense financial challenges the company has been facing lately and will likely continue facing in the near term. Let's take a closer look.

Air Canada's top management and big bonuses

In its recent management information circular dated May 28, Air Canada revealed how it approved a COVID-19 pandemic mitigation bonus of $20 million. Nearly $10 million of the total $20 million approved bonus money was awarded to a handful of its top executives, including former CEO Calin Rovinescu.

Notably, Rovinescu retired from the Air Canada CEO position in February 2021. The airline said that these executives "…were instrumental in the survival of the company during the COVID-19 pandemic."

Can Air Canada justify these bonuses?

Air Canada seemingly justified the bonus decision, saying, "We believe we must retain and motivate our senior leaders to help Air Canada recover as quickly as possible, and you will see some compensation decisions to support those goals."

However, I don't really buy this argument for two reasons. First, it's the basic duty of these already well-paid top executives to find ways to help the airline recover as quickly as possible. And second, I don't think Air Canada's top leadership team did a phenomenal job in helping the company during the COVID period. It becomes even more evident when we look at the recent trends in its financials.

Investors were expecting the airline's financials to start improving in 2021. In contrast, Air Canada reported an adjusted net loss of $1.25 billion in Q1 2021 – even higher than $1.21 billion net losses in the previous quarter.

We must not forget that it's the same airline that cut thousands of jobs last year when it started facing the heat of the pandemic-driven restrictions. In its Q3 2020 earnings report, Air Canada mentioned that it "…took the painful steps of eliminating 20,000 jobs." Also, it's the same airline company that last year received over half a $1 billion under the Canada Emergency Wage Subsidy (CEWS) program to pay salaries to its employees.

Paying millions of dollars in bonuses to its top leaders at a time when it's burning cash, cutting other jobs, and using public money to pay salaries doesn't sound like part of a great financial recovery plan to me.

Should investors care?

The Canadian government has already provided Air Canada access of up to $5.9 billion in liquidity to help the ailing company recover fast from the pandemic-driven difficulties. However, its overall recovery still highly depends on the way its management utilizes these funds and the travel demand — which continues to be very low.

At the moment, investors may want Air Canada to focus on implementing its financial recovery plan rather than paying big bonuses to its top leader for doing their basic duties during the ongoing extremely difficult period.

Given all these factors and uncertainties about Air Canada's near-term recovery, I would prefer to invest my hard-earned money in other growth stocks amid the ongoing market rally instead.

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