



Air Canada (TSX:AC): Problems Pile Up

Description

This weekend, **Air Canada** ([TSX:AC](#)) found itself at the centre of a controversy when actor Holly Robinson Peete's sons were denied permission to board a flight. The two teenagers were asked to show the credit card used to book their business class flight. When they couldn't show the credit card, they were refused their boarding passes. The pair attempted to have their parents negotiate with Air Canada, but the company wouldn't budge. This triggered major social media outrage leading to "Air Canada" trending on **Twitter** (with most of the comments about the company being negative).

For Air Canada, it couldn't have happened at a worse moment. Over the last year and a half, problems have just been piling up for AC. Ever since COVID travel bans started being implemented in March 2020, the company has been suffering pandemic-related setback after setback. The company could be starting to turn the corner on COVID-19. Unfortunately, its other problems are big enough to be serious concerns.

Delta variant

One major concern for Air Canada right now is the [COVID-19 Delta variant](#). It's a new variant of COVID-19 thought to be more contagious than the original. Just a few days ago, a story dropped claiming that the new variant had a 253% higher risk of ICU admission, as well. If the Delta Variant takes off in a big way in Canada, then new lockdowns may be needed. Certainly, Australia and New Zealand brought in new lockdowns, and Canada could do it too. If it does, then demand for travel will tank, as will Air Canada's revenue.

Rising debt

Another big problem for Air Canada is rising debt. As of its most recent earnings release, the company had \$25.9 billion in liabilities. That's only a few hundred million away from the company's *total* assets. Long-term debt (\$11.7 billion) vastly outstripped cash and short-term investments ([approximately \\$5 billion](#)). So, we've got a heavily indebted company here.

Not only that, but the level of debt is rising over time. Long-term debt was only \$11.2 billion at the end of 2020, by the end of the most recent quarter, it was already up to \$11.7 billion. That's \$500 million in debt added in just two quarters! A lot of this debt was financed at low interest, as part of the Federal government's bailout program that included \$5.5 billion in debt and \$400 million in equity. Still, it's a lot of debt, and interest expenses are running at over \$100 million per quarter.

PR problems

Last but not least, we have PR problems. As mentioned, there was the incident involving two youths denied boarding just recently. On top of that, we've seen PR issues related to

- Denying customers refunds;
- Poor customer service;
- Long flight delays;
- And more.

The more of these stories come to light, the less eager customers will be to fly Air Canada. For Canadians traveling internationally, there aren't many other options, but for domestic flights, there are. So, these PR problems are something for investors to keep an eye on.

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