

AIR CANADA

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Executive Summary

This in-depth financial research examines Air Canada, a major airline. The research starts with the company's history, competitors, industry dynamics, and key trends. This background is essential for a complete financial evaluation.

The study requires careful computation and evaluation of financial statistics for profitability, liquidity, and solvency. Air Canada's financial health and performance are shown by these ratios. To provide a baseline, Air Canada's financial performance is compared to the industry average, including its five biggest rivals. Peer group analysis shows the company's strengths and weaknesses.

The paper evaluates Air Canada's performance over the last five years using temporal trend analysis. This longitudinal view shows the company's financial development, problems, and stability. A thorough review of Air Canada's financial health and potential issues concludes the report. Using these insights, the study makes strategic suggestions to management. Financial advisers advocate for activities that boost profitability, minimise risks, and preserve the company's long-term financial health.

In conclusion, our research gives stakeholders and decision-makers a complete financial picture of Air Canada. It highlights strengths and offers practical advice on weaknesses. This detailed analysis guides the company's financial performance in the competitive aviation business.

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Introduction

With its headquarters in Montreal, Air Canada is the largest airline in the country. Since 1937, they have been transporting goods and people to 222 different locations worldwide. With around 29 million passengers carried, they were the seventh-largest airline in North America and the thirteenth-largest worldwide in 2002. They provide a variety of services, including Zip (located in Calgary), Air Canada Jazz (for shorter journeys), and Tango (cost flights) (*Air Canada - Where We Fly*, n.d.).

With 330 aircraft, they fly to around 170 locations, most of them are in North America. They travel to more than 700 locations throughout several nations thanks to their membership in the Star Alliance, a sizable organization of airlines. They also control Air Canada Vacations, a firm that offers vacations, and Aeroplan, a frequent flyer program with more than six million participants. They have seen ups and downs throughout their lengthy existence, but in the early 2000s they faced significant financial difficulties and in April 2003 had to seek protection from bankruptcy.

Because of the fierce rivalry in the airline sector, Air Canada must contend with rivals like WestJet, Air France-KLM, Porter, Air Transat, British Airways, and JAL. The business suffered a number of difficulties, including bankruptcy in 2004, the 9/11 terrorist attacks in America, bad stakeholder relations, unpredictable weather, a financial crisis, and shifting global fuel costs. In its sphere of business—the airline industry—Air Canada encounters a variety of challenges. Increased competition is one of these issues, and it has drastically lowered Air Canada's profitability.

Air Canada is a part of the global airline sector, which handles both passenger and freight air transportation. Fuel costs, the state of the economy, and governmental restrictions are just a few of the many variables that affect this fiercely competitive sector of the economy (“Air Canada Hedges Some of Its Fuel Bill for First Time in Years,” 2023).

The airline business is dealing with a variety of trends, such as the emergence of low-cost airlines, the expansion of the middle class in developing nations, and the rising demand for air travel. In response to these changes, Air Canada is establishing new routes, investing in new aircraft, and expanding its low-cost carrier operations.

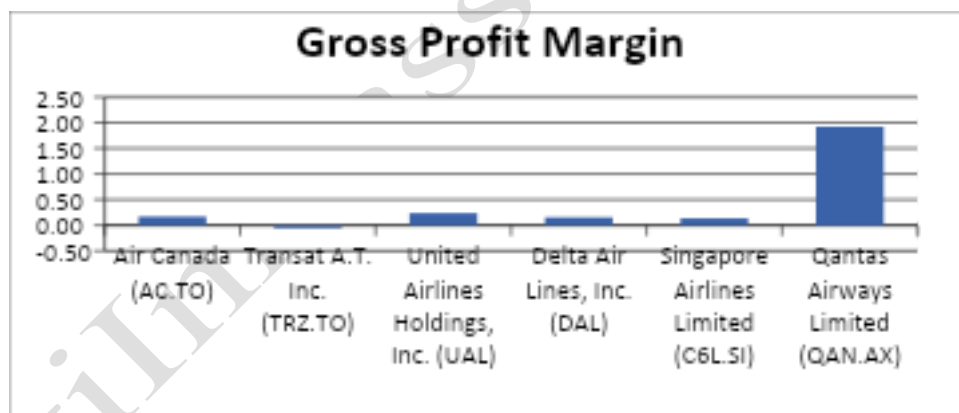
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Ratio analysis

Peer group analysis

Profitability ratio

Based on the provided profitability ratios and a comparison of Air Canada's financial performance with those of five other significant players in the airline industry (Transat A.T. Inc., United Airlines Holdings, Inc., Delta Air Lines, Inc., Singapore Airlines Limited, and Qantas Airways Limited), several important findings can be drawn (*AC.CA | Air Canada Annual Income Statement - WSJ*, n.d.). The gross profit margin for Air Canada is very low at 0.17%; only Transat A.T. Inc. has a margin that is somewhat lower, at -0.06%. Competitors such as United Airlines Holdings, Inc., Delta Air Lines, Inc., and Qantas Airways Limited, however, have much greater gross profit margins of 0.24%, 0.15%, and 1.92%, respectively, indicating superior cost management or pricing tactics (*Air Canada (AC) Financial Ratios*, n.d.).



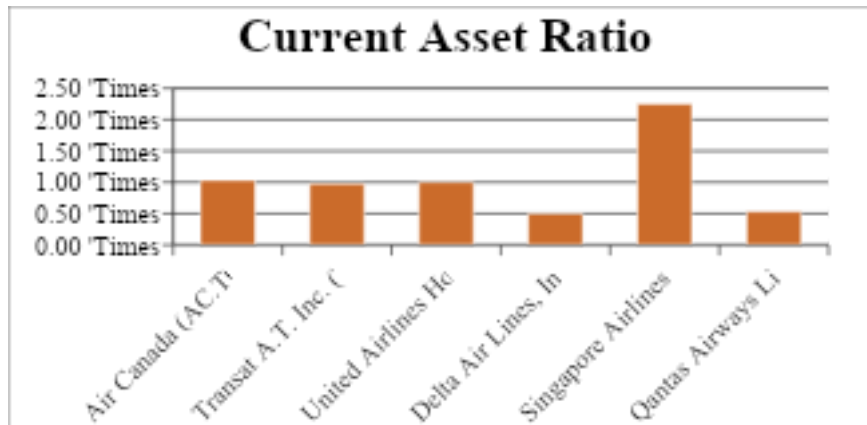
Like Transat A.T. Inc., Singapore Airlines Limited, and Qantas Airways Limited, who all have negative margins, Air Canada falls behind in terms of net profit margin with a margin that is -10.27%, however it is not as bad. The profitability of United Airlines Holdings, Inc. and Delta Air Lines, Inc. is shown by their respective positive net profit margins of 1.64% and 2.61% (*Air Canada (AC.TO) Income Statement*, n.d.).

According to these figures, Air Canada seems to be less profitable than some of the key companies in the market, as seen by its lower gross and net profit margins. A thorough study would need a closer assessment of each company's financial health and strategic place within the aviation sector. It's crucial to note, however, that these numbers may be altered by industry-specific issues and market dynamics.



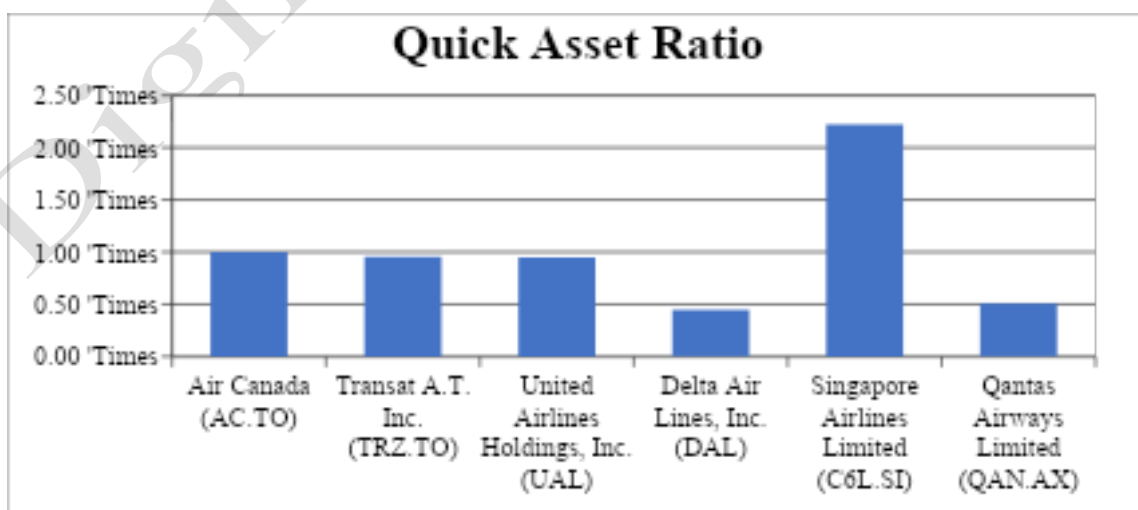
Liquidity Ratio

The analysis of the liquidity ratios of Air Canada and five significant competitors in the airline sector—Transat A.T. Inc., United Airlines Holdings, Inc., Delta Air Lines, Inc., Singapore Airlines Limited, and Qantas Airways Limited—reveals numerous significant conclusions. Indicating its ability to pay short-term commitments with current assets, Air Canada's current asset ratio now stands at a marginally positive 1.03 times. With a strong 1.00 times fast asset ratio (excluding inventories), Air Canada is able to satisfy its immediate obligations without having to depend primarily on inventory assets. It's important to note that these ratios may be crucial for sectors like aviation that deal with capital-intensive operations and unstable economies (*Air Canada: Financial Ratios (AC | CAN | Airlines) - Infront Analytics, n.d.*).



Comparatively speaking, Singapore Airlines Limited has great liquidity with a current asset ratio of 2.25 times and a quick asset ratio of 2.22 times, demonstrating strong short-term financial resilience. The relative weaker liquidity of Delta Air Lines, Inc., which has a current asset ratio of 0.50 times and a quick asset ratio of 0.45 times, highlights the company's probable difficulties in satisfying short-term commitments without using inventory (*AC | Air Canada Annual Balance Sheet, 2023*).

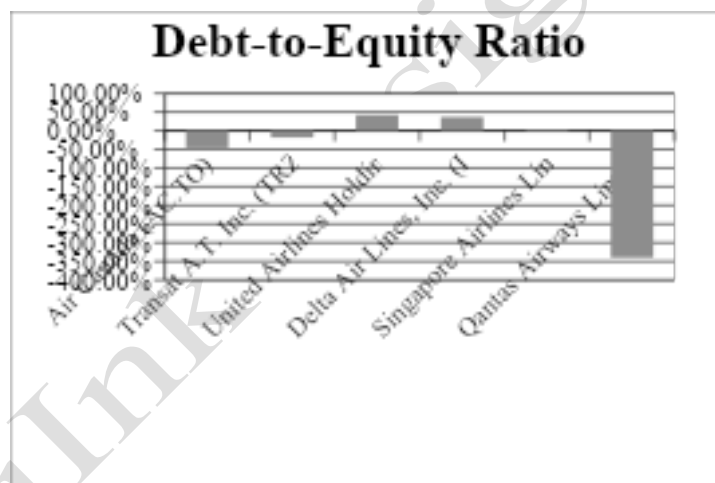
The financial resiliency and near-term solvency of these airlines are crucial information offered by these liquidity ratios. When analysing these statistics and gauging a company's overall financial health and operational effectiveness, it is crucial to take into account the larger industry dynamics as well as its own business strategy.



Solvency Ratio

Analysing Air Canada's solvency ratios alongside Transat A.T. Inc., United Airlines Holdings, Inc., Delta Air Lines, Inc., Singapore Airlines Limited, and Qantas Airways Limited reveals their financial leverage and stability.

Air Canada and Qantas Airways Limited have negative debt-to-equity ratios of -45.85% and -339.59%, respectively. They have greater shareholder ownership than total debt, suggesting odd financial arrangements that demand further investigation. Additionally, Transat A.T. Inc. has a -18.28% ratio. United Airlines Holdings, Inc. and Delta Air Lines, Inc. have high positive ratios, suggesting heavy debt financing. Singapore Airlines Limited's positive ratio is lower, indicating a cautious capital structure.



The debt-to-assets ratio of Air Canada is 2.42%, meaning debt finances 2.42% of its assets. This ratio is inferior than others. The higher ratio of 6.04% for Transat A.T. Inc. indicates more debt-funded assets. The somewhat positive ratios of United Airlines Holdings, Inc. and Delta Air Lines, Inc. indicate considerable debt dependency. Singapore Airlines Limited's 1.70% debt financing ratio is cautious. At 3.40%, Qantas Airways Limited has a low ratio.



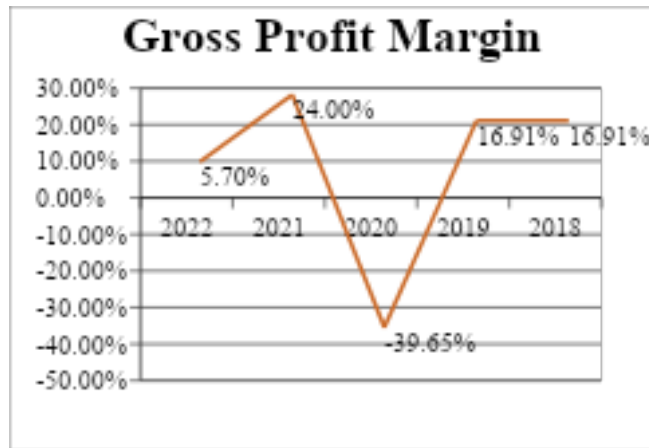
Air Canada, Transat A.T. Inc., and Qantas Airways Limited have unusual negative debt-to-equity ratios that need more analysis. Singapore Airlines Limited has a prudent debt financing strategy. When measuring a company's solvency and financial stability, these measures must take into account its specific financial plan and market circumstances.

Time trend analysis

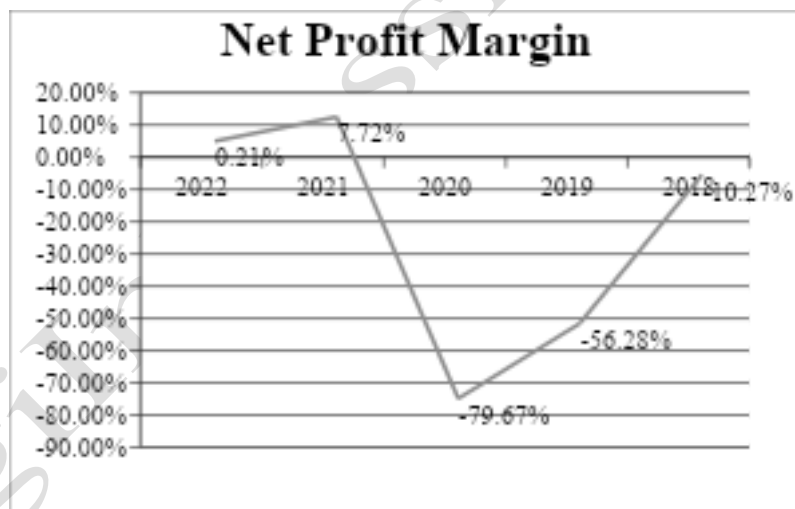
Let's talk about the success of the firm over time in many areas based on the financial data presented (Appendix 2) for Air Canada during the last five years (2018 to 2022):

Profitability Ratio

- Gross Profit Margin:** Over the last five years, there have been changes in Air Canada's gross profit margin. It began off at 5.70% in 2018, increased noticeably to 24.00% in 2019, fell drastically to -39.65% in 2020, then stabilised at around 16.91% in 2021 and 2022. In contrast to the huge decline in 2020, which may have been brought on by the COVID-19 pandemic, the improvement in 2019 was probably the result of improved cost management or pricing initiatives.

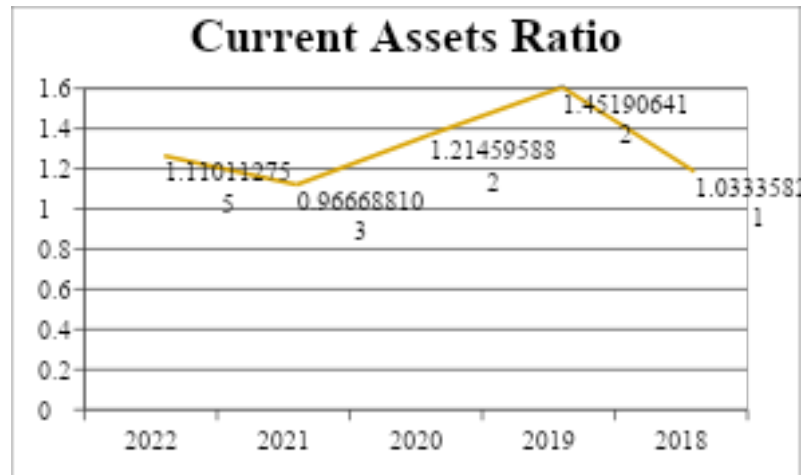


- Net Profit Margin:** The net profit margin was similarly inconsistent. In 2018, it was 0.21%; in 2019, it rose to 7.72%; however in 2020 and 2021, it had negative margins. Although the net profit margin rose to -10.27% in 2022, it remained unfavourable. The airline business was significantly damaged by the epidemic, and the negative margins in 2020 and 2021 point to possible financial difficulties.

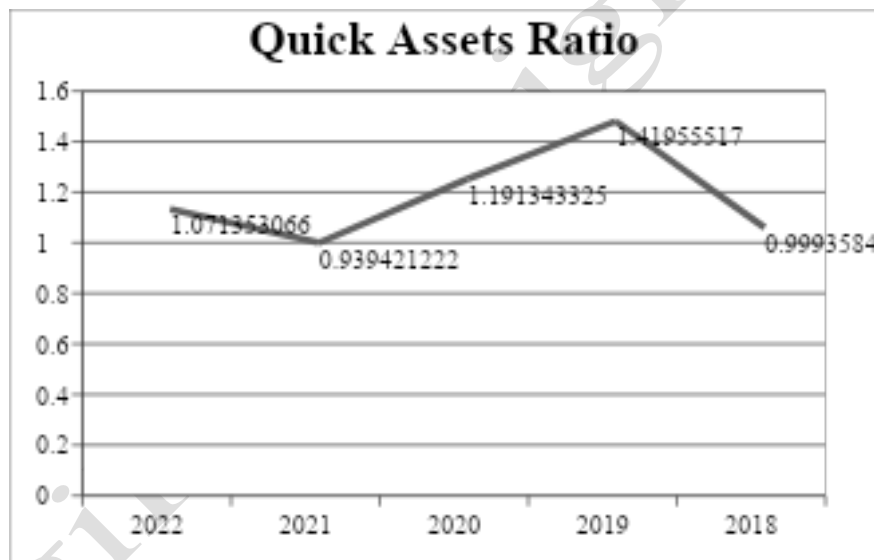


Liquidity Ratio

- Current Asset Ratio:** The current asset ratio changed during the course of the five years, declining from 2018 to 2020 and then increasing in 2021 and 2022 (*Air Canada Reports Fourth Quarter and Full Year 2021 Financial Results*, n.d.). At this time, the ratio is just over 1, showing that Air Canada has enough current assets to pay its short-term obligations.



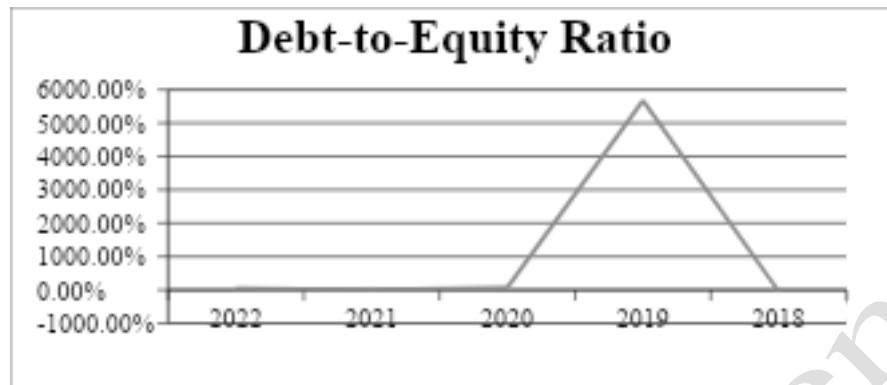
- **Quick Ratio:** Similar to the current asset ratio, the fast asset ratio has changed through time but has often maintained over 1 in recent years. This implies that even during trying times, the corporation managed to have a respectable amount of liquidity.



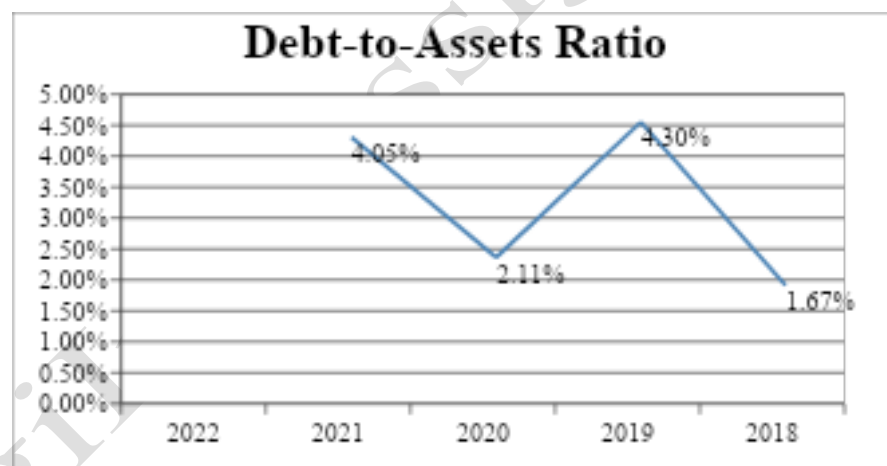
Solvency

- **Debt-to-Equity Ratio:** The debt-to-equity ratio saw substantial swings. The ratio reached an unusually high level of 5677.78% in 2021, showing a significant dependence on debt to support activities. It changed to negative in 2022, which is unique and may call for more research. The firm could have undergone substantial changes to its capital structure or

experienced unusual events that had an impact on equity and debt (*Air Canada Reports Fourth Quarter and Full Year 2022 Financial Results*, n.d.).



- Debt-to-Assets Ratio:** This ratio likewise varied, reaching a maximum in 2020 at 4.30%. This shows that the ratio of debt to assets was substantially greater in that year. The ratio dropped in both 2019 and 2018 (*Air Canada AC-T Earnings*, n.d.).



The issues encountered by the airline sector, especially the COVID-19 epidemic, have had a substantial impact on Air Canada's financial performance over the last five years, which has been characterized by severe volatility. Despite improvements in several profitability and liquidity parameters in 2021 and 2022, the corporation still confronts difficulties including negative net profit margins and varying debt ratios. A thorough examination and explanation are needed for the especially alarming oddity of the negative equity in 2022.

Investors and other interested parties should take into consideration the backdrop of the aviation industry, the company's strategic solutions to problems, and any one-time occurrences or accounting changes that could have had an impact on the financial statistics. To completely comprehend the financial performance and future prospects of Air Canada, further investigation is required, including a study of management reports and outside issues (Reuters, 2023).

Discussion

The issues facing the airline sector, most notably the COVID-19 pandemic's effects, have had a significant influence on Air Canada's financial performance during the previous five years (Canada, n.d.). Although there have been some encouraging developments, such as stabilised gross profit margins and liquidity ratios that have remained above 1, there have also been some unsettling developments, such as negative net profit margins and unusual changes in solvency ratios, particularly the extremely high debt-to-equity ratio in 2021 and the negative ratio in 2022. To comprehend the capital structure and financial health of the organisation, more examination into these irregularities is necessary. As a result, it is difficult to say with certainty whether Air Canada is "on track" or not.

As a group of financial consultants, we would advise Air Canada's management team to carefully examine the company's financial statistics to spot potential areas for development. To increase profitability and make sure the business has favourable liquidity and solvency ratios, they should also think about putting a cost-cutting strategy into place. They should also concentrate on raising customer satisfaction in order to boost sales and grow the clientele of the business.

The major financial health indicators are liquidity, solvency, profitability, and operational efficiency. According to its financial filings, Air Canada's \$8.387B market value suggests financial stability.

The firm's 2.32 beta makes it more volatile than the market. The Air Canada management team should prioritise profitability to boost finances. Profitability may best indicate business health.

Clientele growth or pricing increases might boost profitability. Increasing operational efficiency may cut costs and enhance profitability. Air Canada's management should also guarantee financial commitments are met with enough liquidity and solvency.

Conclusion

In conclusion, the COVID-19 epidemic has hampered Air Canada's financial performance over the previous five years. Its financial performance has fluctuated, with both positive and negative tendencies.

Air Canada has stabilised its gross profit margins and maintained liquidity ratios over 1, demonstrating its capacity to satisfy short-term commitments. Negative net profit margins and unusual solvency ratio variations, notably the high debt-to-equity ratio in 2021 and the negative ratio in 2022, raise issues about the company's financial structure and health. Investigation is needed to determine the causes of these abnormalities.

The airline business confronts unexpected external events, severe rivalry, and shifting worldwide fuel prices. Air Canada must overcome these problems while increasing profitability via revenue growth and expense reduction.

Consider industry trends and Air Canada's particular conditions when judging the company's financial health. Investors and stakeholders analyse the company's market capitalization and beta, which reflect its financial health and volatility. Air Canada's financial condition is a combination of good and bad. The company's long-term profitability and sustainability in the ever-changing aviation business need more research, management, and strategic planning.

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Appendix

Financial Ratios						
Profitability Ratio						
Gross Profit Margin	Air Canada (AC.TO)	Transat A.T. Inc. (TRZ.TO)	United Airlines Holdings, Inc. (UAL)	Delta Air Lines, Inc. (DAL)	Singapore Airlines Limited (C6L.SI)	Qantas Airways Limited (QAN.AX)
Gross Profit	27,990,000	-92,259	1,06,40,000	78,15,000	10,25,700	87,00,000
Total Revenue	1,65,56,000	16,42,038	4,49,55,000	5,05,82,000	76,14,800	45,24,000
(Gross Profit/Total Revenue)*100	0.17	-0.06	0.24	0.15	0.13	1.92
Net Profit Margin	Air Canada (AC.TO)	Transat A.T. Inc. (TRZ.TO)	United Airlines Holdings, Inc. (UAL)	Delta Air Lines, Inc. (DAL)	Singapore Airlines Limited (C6L.SI)	Qantas Airways Limited (QAN.AX)
Net Profit	-17,00,000	-4,45,324	7,37,000	13,18,000	-9,62,000	-8,60,000
Total Revenue	1,65,56,000	16,42,038	4,49,55,000	5,05,82,000	76,14,800	45,24,000
(Net Profit/Total Revenue)*100	-10.27 %	-27.12%	1.64%	2.61%	-12.63%	-19.01%
Liquidity Ratio						
Current Asset Ratio	Air Canada (AC.TO)	Transat A.T. Inc. (TRZ.TO)	United Airlines Holdings, Inc. (UAL)	Delta Air Lines, Inc. (DAL)	Singapore Airlines Limited (C6L.SI)	Qantas Airways Limited (QAN.AX)
Current Assets	96,65,000	10,31,890	2,00,58,000	1,30,11,000	1,76,88,100	56,33,000
Current Liabilities	93,53,000	10,53,633	1,99,92,000	2,59,41,000	78,68,600	1,05,58,000
Current Assets/Current Liabilities	1.03 Times	0.98 Times	1.00 Times	0.50 Times	2.25 Times	0.53 Times
Quick Asset Ratio	Air Canada (AC.TO)	Transat A.T. Inc. (TRZ.TO)	United Airlines Holdings, Inc. (UAL)	Delta Air Lines, Inc. (DAL)	Singapore Airlines Limited (C6L.SI)	Qantas Airways Limited (QAN.AX)

Current Assets	96,65,000	10,31,890	2,00,58,000	1,30,11,000	1,76,88,100	56,33,000
Inventories	3,18,000	26,725	11,09,000	14,24,000	1,87,400	2,69,000
Current Liabilities	93,53,000	10,53,633	1,99,92,000	2,59,41,000	78,68,600	1,05,58,000
(Current Assets-Inventories)/Current Liabilities	1.00 Times	0.95 Times	0.95 Times	0.45 Times	2.22 Times	0.51 Times
Solvency Ratio						
Debt-to-Equity Ratio	Air Canada (AC.TO)	Transat A.T. Inc. (TRZ.TO)	United Airlines Holdings, Inc. (UAL)	Delta Air Lines, Inc. (DAL)	Singapore Airlines Limited (C6L.SI)	Qantas Airways Limited (QAN.AX)
Total Debt	7,13,000	1,37,165	29,11,000	23,59,000	8,28,000	6,69,000
Total Shareholder's Equity	-15,55,000	-7,50,180	68,96,000	64,56,000	2,24,11,900	-1,97,000
Total Debt / Total Shareholder's Equity	-45.85 %	-18.28%	42.21%	36.54%	3.69%	-339.59%
Debt-to Assets Ratio	Air Canada (AC.TO)	Transat A.T. Inc. (TRZ.TO)	United Airlines Holdings, Inc. (UAL)	Delta Air Lines, Inc. (DAL)	Singapore Airlines Limited (C6L.SI)	Qantas Airways Limited (QAN.AX)
Total Debt	7,13,000	1,37,165	29,11,000	23,59,000	8,28,000	6,69,000
Total Assets	2,95,07,000	22,71,131	6,73,58,000	7,22,75,000	4,86,71,000	1,96,53,000
Total Debt/Total Assets	2.42%	6.04%	4.32%	3.26%	1.70%	3.40%

Profitability Ratio						
Gross Profit Margin	2022	2021	2020	2019	2018	Trend
Gross Profit (GP)	27,99,000	-16,20,000	-23,13,000	45,92,000	\$ 10,25,700.00	
Revenue	1,65,56,000	64,00,000	58,33,000	1,91,31,000	1,80,03,000	
(Gross Profit/ Revenue)*100	16.91%	16.91%	-39.65%	24.00%	5.70%	
Net Profit Margin	2022	2021	2020	2019	2018	Trend
Net Profit	-17,00,000	-36,02,000	-46,47,000	14,76,000	37,000	
Revenue	1,65,56,000	64,00,000	58,33,000	1,91,31,000	1,80,03,000	
(Net Profit/ Revenue)*100	-10.27%	-56.28%	-79.67%	7.72%	0.21%	
Liquidity ratio						
Current Assest Ratio	2022	2021	2020	2019	2018	Trend
Current Assets	96,65,000	1,00,53,000	86,71,000	75,16,000	63,01,000	
Current Liabilities	93,53,000	69,24,000	71,39,000	77,75,000	5676000	
Current Assets/Current Liabilities	1.033358281	1.451906412	1.214595882	0.966688103	1.110112755	
Quick Assest Ratio	2022	2021	2020	2019	2018	Trend
Current Assets	96,65,000	1,00,53,000	86,71,000	75,16,000	63,01,000	
Inventories	3,18,000	2,24,000	1,66,000	2,12,000	2,20,000	
Current Liabilities	93,53,000	69,24,000	71,39,000	77,75,000	56,76,000	
(Current Assets-Inventories)/Current Liabilities	0.999358495	1.41955517	1.191343325	0.939421222	1.071353066	
Solvency Ratio						
Debt-to-Equity Ratio	2022	2021	2020	2019	2018	Trend
Total Debt	7,13,000	5,11,000	12,44,000	5,87,000	18,91,000	

Total Shareholder's Equity	-15,55,000	9,000	17,15,000	44,00,000	32,77,000	
Total Debt / Total Shareholder's Equity	-45.85 %	5677.78 %	72.54%	13.34%	57.71%	
Debt-to Assets Ratio	2022	2021	2020	2019	2018	Trend
Total Debt	7,13,000	5,11,000	12,44,000	5,87,000	8,87,300	
Total Assets	2,95,07,000	3,06,14,000	2,89,13,000	2,77,59,000	2,18,83,000	
Total Debt/Total Assets	2.42%	1.67%	4.30%	2.11%	4.05%	