BATCO

BATCo document for Province of British Columbia 14 April 1999

Air Canada's Prediction of a Loss for 1991 Suggests Broad Downturn for the Industry

By G. Pierre Goad

Staff Reporter of The Wall Street Journal

MONTREAL – Air Canada's prediction that it will report a loss next year – even after cutting its staff by 12.6% and sharply reducing capacity – signals that the airline industry may be in worse shape than other airline executives are admitting, analysts said.

While the layoffs at Canada's largest airline follow similar announcements at other major carriers, "I think Air Canada is in the vanguard" in projecting a loss for 1991, said Kevin Murphy, an analyst with Morgan Stanley & Co. in New York.

Mr. Murphy said that while many airlines are openly predicting poor results for the second half of this year because of a slowdown in traffic and higher fuel prices, they have remained vague about their prospects for 1991.

Most analysts welcomed Air Canada's decision to cut costs but some added they were disappointed that the Montreal-based airline didn't go further. "I wasn't as shocked and dismayed as I wanted to be," said one Toronto analyst.

Air Canada said Tuesday that it will cut 2,900 employees, or about 12.6% of its 23,000 work force, by the end of March. The airline also said it will sell its downtown headquarters building here, sell three Boeing 747-400 aircraft due for delivery in 1991, suspend service on three international routes and postpone the scheduled introduction of service on two other international routes.

The cost-saving measures will increase operating income by about $82 million Canadian (US$64 million) and reduce capital expenditures by about C$570 million in 1991, said Claude Taylor, chairman, president and chief executive.

In Toronto Stock Exchange trading yesterday, Air Canada shares closed at C$7.75, down 37.5 Canadian cents, on moderate volume. The stock fell 25 cents Tuesday.

A slimming of Air Canada was widely expected even before fuel prices shot up. Air Canada was a government-owned corporation until its two-step privatization in 1988 and 1989. After Tuesday's cuts are carried out, its operating costs will still be higher than those of U.S. carriers, Mr. Taylor said.

"These moves are necessary for Air Canada to remain competitive," said Fred Lenkin, an analyst at Bunting Warburg Inc. in Toronto.

The airline's cost-saving measures also indicate a shift in strategy, said analysts, who called the decision to suspend service to Singapore – its beachhead in Asia – a major setback. "By dropping that route they are giving a clear signal that they aren't targeting the Pacific Rim as a prime market. That's almost as significant as the layoffs," said Ella Brown, an analyst at Richardson Greenshields of Canada Ltd. in Toronto.

500818739

00007981