



Air Canada Stock (TSX:AC): Buy Before the Bailout?

Description

The novel coronavirus pandemic is crippling the global airline industry. Losses could reach up to US\$252 billion this year, not to mention potential bankruptcies. The U.S. is rolling out a US\$50 billion bailout fund (part cash grant and part loans) for its airlines.

Countries like the U.K., France, Italy, and Australia have their own bailout plans to save distressed airline companies. Canada's flag carrier is still waiting for the federal government to act. **Air Canada** ([TSX:AC](#)) is battered and bruised. The airline company is [gasping for air](#) and hoping for a bailout.

Victim of circumstance

Since early April this year, fund managers were already sounding alarms. Air Canada is a victim of circumstance. The federal government needs to intervene to save one of the world's largest airline companies.

Finance Minister Bill Morneau said on April 17, 2020, that the federal government is considering financial aid options for large Canadian corporations. The energy sector received a \$2.45 billion aid package. A month later and there is no assistance for Air Canada yet.

Crash-landing

Air Canada was flying high in 2019. The airline stock was among the TSX's top 30 growth stocks. However, the runway for growth is closed. Its scale of operations is down to 10%, and 16,500 employees are out of jobs.

The actual state of Canada's most dominant airline was released on May 4, 2020. For Q1 2020 (quarter ended March 31, 2020), the company reported a revenue drop and operating loss. Revenue is down 16%, or \$3.72 billion from \$4.43 billion a year earlier. Operating loss deteriorated and is now \$433 million versus \$127 million.

According to Air Canada's President and CEO Calin Rovinescu, the impact of COVID-19 on the company was severe and abrupt. Expect Q2 to be much worse when the full quarter impact of the pandemic will be known.

Evaluating options

While Air Canada is reviewing its future options, the federal government is evaluating all options to support the airline industry. The turbulence is so severe that taxpayers will have to carry the burden of a massive bailout.

Air Canada is losing its propensity to make profits while on a [flight lockdown](#). The bleeding will continue as aircraft maintenance costs are a must. Also, the deal to acquire **Transat** to boost Air Canada's leisure business won't be moving forward. The pandemic has torpedoed the transaction and is not a priority now.

Air Passenger Rights mentioned two proposed class-against lawsuits against Canadian airlines, including Air Canada. The cases will demand full refunds to customers due to flight cancellations.

Losing proposition

The federal government's back is against the wall. Even with a bailout, Air Canada's future is uncertain. First, the industry needs to stabilize. Second, lifting travel restrictions will not guarantee that travel demand returns quickly to pre-corona levels. Last, Air Canada admits that the recovery period will take no less than three years.

Should you buy Air Canada before a bailout? The answer is a no brainer. While the airline industry is one of the keys to rebuilding Canada's economy, Air Canada is a losing proposition.

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