



## Can Air Canada Survive Without a Bailout?

### Description

Shares of **Air Canada** ([TSX:AC](#)) have been soaring during the past month, as they're up more than 15%. There's been renewed bullishness in the markets and that's helped many TSX stocks like Air Canada in recent days. However, that doesn't mean that all is well with the airline.

The company is still facing some serious challenges this year, and investors shouldn't ignore that. If the stock can survive the COVID-19 pandemic, then there's potential for significant returns to be made for investors who buy the stock, but that's a big if.

### Air Canada is suffering significant losses every day

The airline is facing serious problems. It's burning through more than \$20 million every day. While it had a stockpile of cash and cash equivalents of \$2.59 billion that it had on its books as of March 31, the company's chipping away at that total the longer that it keeps paying staff while its planes aren't flying. To put into perspective how dire it could be: if the company were burning through \$20 million per day, it would use up \$2.59 billion in about 130 days, or a little more than four months.

That doesn't mean that Air Canada is going to run out of money in a few months. It's aggressively slashing expenses and minimizing expenses. In May, Air Canada issued a memo that said by June 7, as many as 60% of its workers could be laid off. That will go a long way in helping to minimize its cash outflows at a time when it's flying at just 5% capacity.

It also has short-term investments of \$3.54 billion, and it can, of course, raise money through debt or the equity markets. But the point is, Air Canada's in a very difficult situation right now. It's anyone's guess at this point how long the situation may last. But the longer it goes on for, the less likely it'll be able to make it through on its own, without government assistance.

### A bailout may be inevitable

Air Canada estimates that for the next three years, its operations will be reduced. The question is to

what extent, and whether there will be enough money coming in to keep the business operating.

Last month, Prime Minister Justin Trudeau said that the government will help struggling industries, but he didn't say whether there would be a bailout for the airline industry.

But the longer the COVID-19 pandemic goes on, the more seriously he'll have to consider that a possibility. If that doesn't happen, it could jeopardize the stability of the entire industry. That's also why I wouldn't expect it to happen. The Canadian government's been more than willing to [dish out money](#) to people amid the pandemic regardless of concerns for the country's mounting debt.

## Bottom line

Although odds are that the Canadian government will come to Air Canada's aid should it require it, investors should be well aware of the risks of buying shares of Air Canada today. If a business isn't operating, it's not much of an investment, especially when it's not clear when things will get back to normal. While [considerable returns](#) may be earned from buying shares of Air Canada today, investors will also be taking on significant risk in the process.

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### Date

2025/08/20

**Date Created**

2020/06/08

**Author**

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