



Will Air Canada (TSX:AC) Stock Need a Government Bailout?

Description

Air Canada ([TSX:AC](#)) is in trouble. That much is clear. The COVID-19 crisis has devastated the airline industry, with traffic still down at least 70% year over year.

“This is catastrophic territory,” Air Canada’s CEO Calin Rovinescu recently [told](#) the *Financial Post*.

“This is hundreds of times worse than 9/11, SARS, or the global financial crisis — quite frankly combined,” he stressed. “We never got to the level when we were only operating at 5%t in any of those circumstances, you know, other than the three days of shut-down post 9/11.”

But trouble can mean opportunity. At the depth of the financial crisis of 2009, for example, Air Canada stock fell below \$1. Over the next decade, shares rose *50 times* in value!

Right now, the market is aggressively debating the [future](#) of airlines. Which firms will go bankrupt? Which ones will need bailouts?

Air Canada was better capitalized than many of its competitors at the start of 2020, but the business currently generated multi-million dollar losses on a daily basis. In the first quarter, the airline posted a \$1 billion loss. No company can keep this up forever.

If a government bailout is needed, uncertainty will hit a fever pitch, with rampant speculation surrounding what will happen to common shareholders. Investors could lose everything, meaning this was *not* an opportunity to buy low after all.

So, will Air Canada ultimately need a government bailout?

Here are the facts

Air Canada had roughly \$6 billion in cash and reserves last quarter. Additional cash burn plus new financing means the company should come in at a similar figure this quarter. Assuming a \$1 billion quarterly loss going forward, that means the company only has 1.5 years of runway left.

In some ways, the situation is much direr. Last week, **Delta Air Lines** stunned the market with a surprise \$5.7 billion loss. Granted, Delta is four times larger than Air Canada, but if the math is anywhere close to proportional, we could see a \$2 billion loss from the company for the second quarter. That means losses are *growing*.

Subtract a \$2 billion loss from the balance sheet and we're left with less than 12 months of operational runway. With borders likely remaining closed through 2020 — another four months at least — additional losses should be expected.

Trust Air Canada stock?

Unless the coronavirus pandemic clears up by the end of the year, this airline will almost certainly need a government bailout. The math just doesn't add up, especially if there's a second wave this coming winter.

It's important to note that the industry itself is already lobbying for more support.

"The National Airlines Council of Canada, which represents Air Canada, Air Transat and WestJet, has pushed the federal government for an airline bailout," CBC reported earlier this month.

Company executives already know that a bailout is needed. What is uncertain is the terms. Investors could get a sweetheart financing deal, or the government could take direct equity stakes, wiping out common stockholders.

Air Canada needs more cash, quick. The lack of visibility here isn't worth a risky bet.

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Date

2025/08/27

Date Created

2020/07/23

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